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ABSTRACT

Hearings on reauthorization of the Higher Education Act, and specifically Guaranteed Student Loans (GSL), are presented, with a focus on issues of multiple disbursements, loan consolidation, subsidies, and copayments. Witnesses represent the lending institutions, secondary markets, and students. The GSL program is designed to promote the availability of loans from banks and other lenders to college students and their parents. Provisions of the act encourage lenders to disburse individual student loans on a multiple instalment basis two to three times throughout the school year rather than on a lump-sum basis at the beginning of the school year. The act provides a monetary incentive for lenders to do this by permitting additional float on the undisbursed portions of the loans. Loan consolidation was conceived of as a program for a small number of highly indebted students who needed help in managing their indebtedness. Loan consolidation was undertaken by the Student Loan Marketing Association (Sallie Mae) for about a 2-year period. Information is provided on the Sallie Mae Options Program, which allows for reduced monthly loan payments and a fixed interest rate for GSL, National Direct Student Loans, and Federally Insured Student Loans. Application forms for the options program are included. (SW)

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REAUTHORIZATION OF THE HIGHER EDUCATION ACT
Guaranteed Student Loans
Volume 1

HEARING

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

HEARINGS HELD IN WASHINGTON, DC, ON
JUNE 4, 5, 11, 13, 19, AND 20, 1985

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REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—Volume 1

TUESDAY, JUNE 4, 1985

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to call, at 9:45 a.m., in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Hayes, Perkins, Bruce, Penny, Atkins, Gaydos, Coleman, McKernan, Henry, Petri, and Jeffords.

Staff present: Thomas Wolanin, staff director; Kristin Gilbert, clerk; Rich DiEugenio, Republican senior legislative associate; and Rose DiNapoli, Republican legislative associate.

Mr. Ford. I'm pleased to call to order this hearing of the Subcommittee on Postsecondary Education of the U.S. House of Representatives. This is the first of what we expect will be a series of 22 hearings here in Washington on specific elements of the Higher Education Act in preparation for reauthorization.

Prior to today, the committee has held hearings in Vermont, Illinois, Iowa, Michigan, New York, and Missouri. We still have additional field hearings scheduled, and those are to be outside of Washington, in addition to the 22 hearings presently scheduled for Washington.

The Higher Education Act, as the primary source of Federal support for students and higher education institutions, must be reauthorized or extended in this Congress.

The largest and most important programs contained in the act provide grants, loans, work opportunities, and special services to students with a demonstrated need for Federal help.

In the coming school year, more than $13 billion will be made available to needy students in grants, loans, and work opportunities. That represents an expenditure of Federal funds of about $6.5 billion, the balance of it being generated from the private sector in the form of guaranteed student loans.

Nearly half of the approximately 12 million students attending 6,000 institutions of postsecondary education in the United States will receive some form of Federal assistance. These student assistance programs are the centerpiece of the Higher Education Act, and they play a critical role in achieving the Federal objective of equal educational opportunity.

We expect that the process of reauthorization of the Higher Education Act is going to be long and complex. We hope, however, that we will be able in this process to reaffirm the Federal commitment to equal educational opportunity and excellence in higher education.

I also look forward to continuing the subcommittee's traditional method of operation which has been bipartisan cooperation in dealing with the vital higher education decisions that will have to be made during this process.

Today, we will begin to look at perhaps the most complex program authorized under the Higher Education Act, the Guaranteed Student Loan Program. This program is designed to promote the availability of loans from banks and other lenders to students and their parents to help meet postsecondary education expenses after taking into consideration family financial resources and other forms of student assistance.

This is accomplished through the provision of Federal reinsurance against borrower default as well as through various Federal subsidies to lenders, guaranty agencies, and secondary markets.

The program is primarily administered by State and private nonprofit guaranty agencies which serve as intermediate loan insurers, defaulted loan collectors, and providers of services to lenders.

The discussion today will focus on the issues of multiple disbursements, loan consolidation, subsidies, and copayments. We will hear from two panels of witnesses representing the lending institutions, secondary markets, and students.

Before yielding to other members of the subcommittee for opening comments, I want to make one further observation.

We operate under a very tough time constraint in trying to accommodate even the number of people who are here today and will be appearing at the numerous meetings scheduled for the future.

We know that there are people, each time we have a hearing on each subject, who are disappointed, because they want to testify and we're not able to hear everyone who would be heard.

We do, however, hold the hearing record open for 1 month after each hearing, and any who wish to have their testimony entered in the record contemporaneous with testimony heard here today may do so by submitting it to us, and any in the audience who would participate in a panel but didn't today, who feel moved to respond to anything you hear from the panel, or add to it, or criticize it, submit that, and it will go into the record.

We want to give everyone the fullest opportunity to get on the record with how they feel about the issues that we are going to be working on over the next few months, and that's the best possible alternative we have to being able to hold hearings for 12 hours a day for the next 3 months.

We want to make sure that anyone who has an idea, or thought, or a concern about the reauthorization of higher education has an opportunity to express it.

You don't have to be a witness sitting at this table to participate, and although we would appreciate it if you don't participate from the audience while you're here today, give us the benefit of your thoughts if you're provoked by anything that is said.

With that, I'd like to recognize the ranking minority member of the committee, who has been very cooperative in setting up the schedule and in setting in place the initial procedures for the reauthorization process which, I am pleased to say, are proceeding apace with our fondest hopes, Tom Coleman of Missouri.

Mr. COLEMAN. Thank you, Mr. Chairman.

I want to join with you in welcoming our witnesses today for the first of many, hearings in Washington on reauthorization of the Higher Education Act.

I think the reauthorization of the Higher Education Act is probably the single most important piece of social legislation that the 99th Congress will consider. The impact of the deliberations of this subcommittee and eventually the full committee will affect millions of students and their families and thousands of educational institutions.

I believe there are two primary goals and objectives that we should be seeking through this important reauthorization.

First, we ought to strive to improve the quality of all the programs contained within the act, and particularly with respect to the student financial aid programs.

It's our responsibility to ensure that the programs function equitably and efficiently, with integrity. It is critical that this act provide a Federal role which promotes improvement in our educational system and is responsive to the changing needs of our society.

Second, we must recognize the enormous limitations that have been placed upon this subcommittee by the budget deficit and, with that, our own fiscal responsibilities.

While we all agree that sufficient funding for education is a necessity, we are also faced with the reality that Federal resources are not limitless and that everyone must pitch in and do their part to reduce this $200 billion deficit.

We appropriately begin these hearings with the Guaranteed Student Loan Program. The GSL Program is one of the central elements of the Federal student aid programs and makes available to students more Federal student aid than all other Federal programs combined.

I personally view this program as a good educational investment, as each year students gain access to capital toward their education expenses worth nearly three times what the Federal expenditure level consists of.

Over the past years, we have seen the program grow rapidly from an appropriation level of $530 million in 1978 up to $3.1 billion appropriated in this fiscal year.

In the 1986 fiscal year budget submitted by the administration, there were several proposals made to dramatically reduce the funding for our Federal student aid programs.

While I do not endorse these proposed changes as a package, I do hope the subcommittee will give due consideration to some of these proposals, as we should with all proposals, and allow them to be carefully studied and reviewed.

Along with these rising program costs, attention has been focused on the increased amount of the guaranteed student loans in default status.

The program currently bears a default rate of approximately 4.9 percent, which represents $1.1 billion in outstanding defaults.

Some, but not all, of these defaults can be attributed to more loans entering repayment, but, nonetheless, defaults represent a significant sum of Federal money, money that should be spent on making new student aid availability.

In this reauthorization, I believe we should make a strong effort to address the issue of defaults, and make efforts to improve our collections process.

Along those lines, I have introduced the Student Loan Collection Improvement Amendment Act of 1985, which is aimed at this goal. Bill Ford has provided us the opportunity on June 19 to hold a hearing to specifically discuss components of this proposed legislation.

I would like to very briefly discuss four or five points which this piece of legislation addresses.

First of all, loan checks would be made payable to both the borrower and the educational institution, except where the borrowers are parents.

Second, the State guaranty agencies in the program would be required to report borrower default status information to consumer credit bureaux.

Third, the Federal statute of limitations of 6 years would be applied to recoveries and overpayments whenever prevailing State statute provides for a shorter period of time.

Finally, eligibility requirements for Federal student aid would be broadened to provide that any student already in default on a loan or owing a refund on a grant would not be eligible for further Federal aid.

I enthusiastically support the reauthorization approach that Chairman Ford has outlined to you this morning.

It has been my experience, serving on the subcommittee as the ranking Republican for two or three Congresses, with several chairmen, that all of us try to be honest, hard working, and work in a bipartisan manner. I'm glad to hear the chairman's intent to keep that tradition active. It's very important for higher education to embark on this very difficult task in a bipartisan manner.

I look forward to working with other members of this subcommittee, and especially with Chairman Ford, in keeping that bipartisan tradition alive and well in the months ahead.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you, Tom.

I think I should tell these people, since this is the first hearing in Washington, that, you're all aware of the process that Mr. Coleman and I undertook earlier this year with the joint letter to 140 groups or associations identified to us as people who would want to give us suggestions about how to write this legislation.

One hundred and seven associations, I'm told by counsel, did respond with specific recommendations. Although it's pretty clear that some associations still can't follow the directions, we had some suggestions that I equate—and some of you have heard me say it over and over again—with the Will Rogers "heat up ocean" solution to the German U-boats. He advised the Navy that they didn't have a problem because the Germans outnumbered us with U-boats, because all they had to do was heat up the ocean until they all had to surface, and then we could pop them off.

The Navy, with no sense of humor, asked him, "But how do we heat up the ocean?" He said, "I've told you how to answer your problem; you work out the details." [Laughter.]

Mr. FORD. We do have some Will Rogers suggestions. However, all of the suggestions that could be collated with the existing law and new proposals for the law have been at the printers and, I'm told, should be ready within the week, and they'll be redistributed to all the organizations.

So as we go along, we'll be able to have before us in each of the areas that we address the suggestions of all the groups that have chosen to comment on that particular issue, their proposed legislation, and their rationale.

We would have had this in your hands before today's hearing, which was our original plan, but somebody dropped a tax bombshell on us here, and the printing office is busy printing all kinds of needless nonsense on taxes when they could be working on our important issue. So we have been sort of delayed.

Mr. Gaydos.

Mr. GAYDOS. Thank you, Mr. Chairman, for the opportunity to say a few words here at this opening session. I'll be very brief, because I, too, want to hear what the witnesses have to say today.

There's little doubt that the issue of student aid programs, including both grants and loans, is the most singled out aspect of the Higher Education Act reauthorization process.

Everyone in this room is well aware of the administration's goal of tightening the rules so as to reduce the availability of guaranteed student loans to a great many of our students.

We know that the Senate Budget Committee has decided, in its infinite wisdom, to cut into the funds, and we know the House Budget Committee has recommended a freeze at 1985 levels, and while the last is the best of the two options, I don't believe it is the right one.

Coming, as I do, from a State that has suffered and is suffering from a tremendous loss of high-paying, semiskilled jobs in manufacturing, especially steel making, that traditionally required little more than a high school diploma, I say we must broaden, not lessen, the opportunities for high school graduates to obtain financial resources for their further education.

Today, we have entered the high-tech world, even in what is left of the manufacturing sector, where college or specialized training is necessary just to gain access to quality jobs. Thus, we have come to a major crossroads for many of the youth in my area and, I imagine, the Nation.

To get these high-tech jobs, our high school graduates need additional education, but where those young people a few years ago were able to get parental assistance for the cost of college, that option is rapidly disappearing, because their parents are out of work or earning substantially less than before.

At the same time, we're faced with numerous attempts to reduce the funds available for those young people from many outside sources.

While we can't have it both ways, it's obvious, if we believe the future of this country rests in our youth and the importance of higher education for them, then we must be prepared to make a serious commitment.

I'm very interested in what today's witnesses have to say, Mr. Chairman. I hope they are in a position to offer concrete suggestions for making the student aid programs more accessible and more flexible so that those young people who want the additional education, who might have great difficulty financing, will not be lost to this country.

I will finally conclude, Mr. Chairman, with an observation that the committee is very anxious to work with you closely, and, hopefully, in the last analysis, this problem is going to be resolved to the satisfaction of the needs of this country and our respective districts.

Thank you.

Mr. FORD. Thank you very much, Joe.

I should mention, we have a hearing, at Mr. Gaydos' request, scheduled in Pennsylvania on July 12 near Pittsburgh.

Mr. Jeffords.

Mr. JEFFORDS. Thank you, Mr. Chairman.

It's good to see such interest in this area, because I believe these may be the most important hearings we will have in higher education for many years to come.

That is particularly true if we not only focus on the nitty-gritty of present programs but how to make them work better, especially at this time in our history, as we go through a great deal of social, programmatical, and philosophical change regarding the role of the Federal Government.

The budget crunch has focused our attention on what cuts to take and how they may impact present programs; but I think it's also very important that we look beyond that impact and take into consideration some of the broad changes that may or may not be occurring at this time.

We not only have the budget to address, but we also need to now look at tax reform. It is important to consider what impact tax reform ought to have in the education area.

I am concerned that, if we are not careful, those that have special interests in the tax area will shut out any attempt of ours to ensure that we consider not only capital formation but human capital formation, to reinforce education in this country.

We have already had some victory in the areas of charitable contributions. It seems to me we need to also look at other kinds of changes in our society; and that is—how we can help families finance education—via tax preferences.

There has been a substantial change in our society regarding the legal relationship of parents and young people and what their role is in funding higher education.

Ever since the change in the age of majority, we have been groping around at what should and shouldn't be done as far as parents' responsibility for educating their children.

It's time that we face that challenge. There is no legal obligation now for students who are over age 18. The question is, What should our policy be in that sense?

We are seeing a tremendous growth in the number of people who consider themselves independent students. One out of every four of the guaranteed student loans are made to independent students. We have a large gap in resources for those students, indicating that there may be significant, abuse in that program.

We must make it a rational program. For instance, at what age should parents no longer be obligated to care of their students.—That should be clarified.

I think all of these things need to be addressed as well as the particular programs that we are currently involved in, Mr. Chairman, and I hope that we have time during these hearings to look at some of these broader concepts.

These are extremely challenging times, and I know, from my experience in working with you in the past, that this committee will stand up to that challenge.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

Mr. Hayes.

Mr. **Hayes**. Mr. Chairman, it's obvious, my presence here indicates my interest in the whole proposed deficit reducing as it impacts on education from Headstart all the way to the higher institutions of learning.

The number of people present here, even in the bleacher section, would indicate an interest on the part of a lot of you.

Keeping in mind, Mr. Chairman, what you said in your opening remarks, I, too, am concerned that we conserve enough time to hear as many witnesses as possible on this important issue.

Therefore, I'm going to forego any prepared remarks. This is the first of 22 hearings, I think you said. So I'll have plenty of time in subsequent hearings to maybe voice an opinion in the beginning of the sessions.

But I do want to hear as many as possible, and I will participate, if necessary, in the questioning of the witnesses when they finish their testimony.

Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

I'd like to thank you, Mr. Hayes, for the cooperation you have shown us in your willingness to travel and be with us to make it possible for us to hold field hearings when that was going to be a difficulty.

I wish that we had more of the newer members of the committee here, particularly for today's panel, because this is going to be the first time to get the background of the way in which the interaction of these agencies works in the complex financing of the Guaranteed Student Loan Program, something that is not too well understood by an awful lot of us.

Mr. McKernan.

Mr. **McKernan**. Thank you, Mr. Chairman.

I want to commend you and the ranking member for the way you have approached this issue.

I think it is important that we take the deliberate approach that you and Mr. Coleman have taken in preparing this committee, as well as the witnesses, to address what I believe is probably as important an issue for the future of our country as any that we're going to address.

Mr. Jeffords talked about the budget and tax reform, and, clearly, those will have an impact on education. But it's also clear that some of the changes that have been taking place in the way the Federal Government operates are moving us toward an opportunity society, in which we're creating more opportunities for people in this country. At the same time, we should realize that this country has never been in a position where opportunity and education have been more closely related.

John Nesbitt in "Megatrends" wrote that there will be jobs in the future, but who will possess the high-tech skills to fill them? People will not have the skills necessary to fill those jobs unless we make sure that opportunity for education is there for all of us.

I want to emphasize how much I'm looking forward to these hearings. We have an opportunity to make significant changes in the way higher education is funded, to make changes for the better—changes that will allow more and more students access to education, even if it means restructuring the present law to a certain extent to take care of the needs of the 1980's, and into the 1990's.

Thank you again, Mr. Chairman.

Mr. Ford. Thank you very much.

We're working with Mr. McKernan for a hearing, at his request, sometime in July or September, depending on the dates that can be worked out.

In my 21 years on the committee, I've never worked on a piece of education legislation without a Perkins. I'm pleased to see that we have Carl's son, who is a valuable member of this committee and has been contributing since the day he hit the ground running here.

Mr. Perkins.

Mr. Perkins. Thank you, Mr. Chairman.

I'm going to follow Mr. Hayes' example in this particular instance, in beginning the opening session of a good period of time that we're going to be looking at this particular issue.

Now, the way I look at it might be a little bit different from the way some people look at it. I'm a little bit concerned that a whole lot of people in this country have been getting an education for a period of time, but I'm always concerned about the poor people and the people in the middle class having an opportunity to get that education.

I'm afraid we've been kind of straying a little bit from that path here in recent times, and, with an eye toward seeing that everybody has the opportunity to get those new kinds of jobs that Mr. McKernan was talking about here a little while ago in these new industries and the growth industries, I think that is the focus of what we've got to be concerned with here in higher education.

I think, over the next period of time, when we're looking at the specific issues, that's what a number of the members of this committee are going to be looking at in terms of what we're eventually going to try to report out.

Certainly that's going to be what my interest is, because I don't want to see education returned to being just the province of the rich. I want to see some of my people from over on Beaver Creek, and Dry Creek, and Quicksand have an opportunity to have the same kind of quality education and the same opportunities that somebody from some fancy place up in the Northeast has, or any other place. [Laughter.]

My friend here from the Northeast is going to get on me for that, but that's my thinking, and that's how I'm going to be looking at it.

Mr. **Ford**. Mr. Atkins.

Mr. **Atkins**. I'd just like to say to my friend, Chris Perkins, that we welcome everybody from Beaver Creek, and Dry Creek, and Quicksand at Harvard and at MIT, and I hope in the course of our deliberations we can make that possible with this bill.

Mr. **Ford**. Thank you very much.

Our first panel this morning will consist of Edward Fox, president of the Student Loan Marketing Association; Jean Frohlicher, staff director of the National Council of Higher Education Loan Programs; Dan Lawlor, a student at Georgetown University; and Dr. Dallas Martin, executive director of the National Association of Student Financial Aid Administrators.

Without objection, the prepared testimony and exhibits that each of the witnesses have submitted for today's hearing will be included in the record immediately preceding the comments made by each of the witnesses as they make their comments today.

You, members of the panel, may proceed to summarize, add to, or supplement your formal testimony in any way you find most convenient.

Mr. Fox.

STATEMENTS OF EDWARD FOX, PRESIDENT, STUDENT LOAN MARKETING ASSOCIATION; JEAN FROHLICHER, STAFF DIRECTOR, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS; DAN LAWLOR, STUDENT, GEORGETOWN UNIVERSITY; AND DALLAS MARTIN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Fox. Thank you, Mr. Chairman.

It was 1979, I believe, when I appeared before this panel and before you as chairman, and we were discussing the problem associated with the debt burdens of many of our college students.

These people were attending more than one institution; they were borrowing from more than one source; they were frequently borrowing from more than one program; they were graduating with a great deal of indebtedness, significantly more than we had originally expected that they would be undertaking—high inflationary environment, increasing costs of education.

The problem was being created in that, as they graduated with many of these debts from many of these different institutions and from many different programs, the minimum repayment schedules and requirements of each of these programs was creating a monthly payment burden that was uncontrollable, that was inconsistent with their income, and frequently led to default.

You asked a panel similar to this to try to come up with some kind of a methodology by which these individuals could consolidate their indebtedness or somehow or other manage to be able to pay back the debts that they had incurred in order to get their postsecondary education, and out of that colloquy came what we now know as the Loan Consolidation Program.

For the record, I have submitted a lengthy examination of the events leading up to, and the experience Sallie Mae had, in running a loan consolidation program with a couple of appendixes.

These appendixes include an outline of the steps that were necessary to get a student's loans consolidated and the documentation that was undertaken and submitted to the student, which they had to complete, and which the banks had to complete, in order to get loan consolidation concluded.

Loan consolidation was undertaken only by Sallie Mae for about a 2-year period, but during that period approximately $390 million of loans were consolidated. This represented about 1 percent of the students at that time and approximately 1.5 percent of the debt outstanding at that time.

Loan consolidation was conceived of as a program for a small number of very high indebtedness students who needed help in managing that indebtedness.

The program got caught up in certain political problems in the mid-1980's, and, as a result, it was terminated when the House and the Senate could not agree on a format or methodology for continuing the program. The result is that I believe that a certain small number of students were the losers.

There are out there a small number of students whose debts are very, very high. I teach at Georgetown University, and I've actually had some medical students whose debts have gone above $150,000 between the various Guaranteed Student Loan Program, HEAL Program, and the like.

In one way or another, this is an unconscionable burden, but the legislation exists for students to accumulate that kind of debt, and I believe that loan consolidation for that small number of students who get to high debt burdens—certainly not many, to that extent, certainly many over $10,000, $15,000, or $100,000—should have some means by which they could consolidate that indebtedness, get a more manageable repayment structure, get some debt extension to pay back the loan over a longer time period, and perhaps get graduated repayments so that they could make their payments consistent with their income, graduated repayment meaning that they pay a lesser amount back in the early years out of school consistent with that period when they have lower income streams and perhaps rising later as their job income rises in their more productive years.

I think that any program of loan consolidations should take into consideration not only the needs of the students but the needs of the Government and the needs of the institutions who are participating in the program.

For the student, loan consolidation means a more reasonable payment stream; it means extension of their debt; but, for the Government, extending debt also means a longer period of time that that debt is outstanding, it means higher subsidy costs for the Government; so there has to be some consideration given to how that cost is going to be shared and by whom it's going to be borne.

Operationally, loan consolidation is a very difficult task; it means reaching out to not only students but to lenders, and frequently the students don't know who their lenders are; it means getting a great deal of financial information, operational information, in one place at one time, settling a bunch of debts, repaying those loans, and originating a new note; it's quite complex.

But given the complexities, given the need, given the fact that we're dealing with a relatively small group of people, I think it's something that, in reauthorization, should be considered.

I believe that there is evidence now that the default levels for students of high indebtedness can be moderated by giving them the opportunity to provide loan extension and consolidation for the students. It affords the opportunity for certain NDSL paper to be recycled back, to be lent to other students, which is useful. I think, on balance, it's a socially useful program as long as the costs to the Government are not beyond reason.

I have put in my paper a great deal of information about who used the program, how they used it, how they were subsidized, and some costs to the Government. This is certainly available to you.

In the interests of brevity, I'll end my remarks now and would suggest that I'd be available to answer any questions that may come up.

Thank you, Mr. Chairman.

[The prepared statement of Edward A. Fox follows:]

Prepared Statement of Edward A. Fox, President and Chief Executive Officer, Student Loan Marketing Association—"Sallie Mae"

SUMMARY

The Education Amendments of 1980 authorized Sallie Mae to make consolidated loans to borrowers with aggregate federally insured or guaranteed student loan indebtedness exceeding $5,000 from two or more programs or lenders or $7,500 from a single lender, with maximum repayment periods not to exceed 20 years and with income-sensitive repayment schedules.

Under this authority, Sallie Mae created the OPTIONS Program, a nationally uniform system of graduated and extended repayment. Basically the OPTIONS Program allowed a borrower to apply to Sallie Mae to pay off all existing notes and create one new Guaranteed Student Loan with repayment extended beyond the basic GSL maximum of 10 years. The borrower had three repayment options from which to choose: extended term, fixed repayment; graduated repayment; accelerated, graduated repayment. While this concept is simple we ourselves found its implementation to be extraordinarily complex due to the permutations and combinations of repayment schedules and the difficulty of arranging simultaneous payoff dates for all a borrower's loans. During its 2-year life, OPTIONS consolidated $390 million in student loans, or about 1.5 percent of outstandings at September 30, 1983.

In the Student Financial Assistance Act of 1982, the Congress placed a sunset provision on the OPTIONS Program, so that original authority expired on August 1, 1983. The General Accounting Office was authorized to conduct a study of the loan consolidation program; that study was presented in June 1983. The OPTIONS Program was extended for 3 months through October 31, 1983, by the Student Loan Consolidation and Technical Amendments Act of 1983. In November 1983, the House again passed legislation, H.R. 4530, the Emergency Student Loan Consolidation Act of 1983; however, the Senate failed to act on that bill or its own later reported version, S. 2491. We discontinued the OPTIONS Program, as required by law, on November 1, 1983, writing off nearly $3 million in start-up costs.

We believe OPTIONS was a viable, successful example of the concept of loan consolidation. It was by law a restricted program which was never meant to cover the majority of student loan recipients. We believe it provided a sound program of debt management with optimum choice for the borrower, without a bewildering array of decisions, and a basis for effective servicing. In point of fact, the concept of loan consolidation became engulfed in a wave of hyperbole and dissention which robbed high indebtedness students of their ability to manage the high debt levels the law allows them to incur. The program became embroiled in disputes over who should consolidate loans, or with which sources of funds, or who should guarantee the loans, or who should be eligible to consolidate, or how much subsidy should be provided. The simple and unfortunate result is that students no longer have loan consolidation. So we begin again with the same question I was asked in 1979—How do we help these students to manage their debt burdens to prevent defaults? At least this time we already know it can be done.

There are benefits for both the student and the government in allowing loan consolidation. The borrower benefits by having extended repayment for which indebtedness, graduated repayment for income sensitivity, and a single rather than multiple payments. The government benefits by the repayment of NDSL loans to replenish revolving funds and, we believe, from a reduced default rate. Today the default rate on consolidated loans under the OPTIONS Program is 2 percent.

There are several major considerations for the design of any loan consolidation program which I would like to bring to the Subcommittee's consideration: eligibility, restructured repayment terms, lender special allowance and eligibility. and complexity. Each of these concepts is interactive, when you change one element, you must reexamine the whole configuration.

The definition of elgibility will determine not only the number of participating students but also the level of lender participation, since the latter will depend on whether there will be a sufficient volume to support administrative expenses.

The key elements for borrowers are extended repayment and graduated payment. The repayment terms coupled with the interest rate determine monthly payment. An interest rate higher than that on the underlying loans operates as a penalty for consolidation. A program which operates as a penalty is not likely to be a viable default prevention mechanism.

The potential for crippling complexity for borrowers, lenders, and servicers is inherent in the loan consolidation concept unless a nationally uniform system is mandated. At a minimum the standards for loan consolidation must be uniform to avoid a bewildering array of nonconforming programs which will confuse students and create havoc for the delivery system.

At Sallie Mae we spent a year creating a workable loan consolidation program, we spent a year running it and providing a benefit to students and we spent a year trying to save it from elimination. There are not many permutations or combinations of the basic structure of consolidated loans that we have not examined and analyzed. Sallie Mae is proud to have played a part in finding a workable means to handle high student indebtedness.

Mr. Chairman, I am Edward A. Fox, President and Chief Executive Officer of the Student Loan Marketing Association, (Sallie Mae). I appreciate the opportunity to testify before this Subcommittee on student loan consolidation as part of the process of the reauthorization of the Higher Education Act of 1965. In my testimony I will review the history of loan consolidation, the Sallie Mae OPTIONS Program, the benefits to students of a program of loan consolidation, and some considerations for the design of any new loan consolidation program.

The Education Amendments of 1980 authorzed Sallie Mae to make consolidated loans to borrowers with aggregate federally insured or guaranteed student loan indebtedness exceeding $5,000 from two or more programs or $7,500 from a single lender. The new consolidated loans could have repayment periods of up to 20 years and income-sensitive repayment schedules.

Under this authority, Sallie Mae created the OPTIONS Program, a nationally uniform systemof graduated and extended repayment. Basically, the OPTIONS Program allowed a borrower to apply to Sallie Mae to pay off all existing notes and create one new Guaranteed Student oan with repayment extended beyond the basic GSLP limit of 10 years, up to a maximum of 20 years, based on the borrower's level of indebtedness. The borrower had three repayment options from which to choose: extended term, fixed repayment; graduated repayment; and accelerated, graduated repayment. I have included as an appendix to my statement a copy of the information provided to the student on OPTIONS as well as the other documentation which was necessary to complete the OPTIONS origination process. While this concept is simple, we ourselves found it extraordinarily complex to implement due to the possible permutations and combinations of repayment schedules and the difficulty of arranging simultaneous payoff dates for all a borrower's loans. I have also included as an appendix to my statement the actual steps through which a borrower went to complete consolidation.

OPTIONS began in October 1981, after approval was received from the Department of Education. During its 2-year life, OPTIONS consolidated $390 million in student loans, representing approximately 1.5 percent of the total number of GSL borrowings outstanding as of September 30, 1983. Further statistics on the program's results follow:

Average Age of Borrower: 28 years.

	Percent
Employment Status:	
Full-time	84.7
Part-time	7.3
Unemployed	8.0
Total	100.0
Borrower Salary Range:	
$0 to 10,000	11.2
10,001 to 15,000	18.4
15,001 to 20,000	23.6
20,001 to 25,000	19.3
25,001 to 30,000	12.0
Greater than $30,000	15.5
Total	100.0

Average Salary: $21,400.

	Percent
Occupation:	
Business	18.0
Chiropractor	2.0
Clerical	2.4
Dentist	4.2
Doctor	3.6
Engineering	3.7
Health Administrator	1.0
Health Services	4.3
Journalism	1.1
Lawyer	36.6
Sales	3.5
Social Work	4.3
Teacher	4.1
Veterinary	.8
Other	10.4
Total	100 0
Type of School Attended:	
Private	63.6
Public	36.4
Total	100.0

Average Consolidated Loan: $12,251.

	Percent
Repayment Option Selected:	
Fixed Repayment	28.3
Graduated (standard)	67.2
Graduated (accelerated)	4.5
Total	100.0

Total NDSL Consolidated: $24.6 million (6.3 percent).
Total GSL Consolidated: $365.1 million (93.7 percent).
Total Number of Borrowers: 31,805.

In the Student Financial Assistance Act of 1982, the Congress placed a sunset provision on the OPTIONS Program, so that the original authority expired on August 1, 1983. The General Accounting Office was authorized to conduct a study of the loan consolidation program; such a study was presented in June 1983. The OPTIONS Program was extended for three months by the Student Loan Consolidation and Technical Amendments Act of 1983. That authority expired as of November 1, 1983. In November 1983, the House again passed legislation, H.R. 4350, the Emergency Student Loan Consolidation Act of 1983, to renew the authorization. However, the Senate failed to act on that bill or its own, later-reported version, S.2491. We discontinued the OPTIONS Program, as required by law, on November 1, 1983, writing off nearly $3.0 million in start-up costs.

We believe OPTIONS was a viable, successful example of the concept of loan consolidation. It was, by law, a restricted program which was never meant to cover the majority of student loan recipients. We believe it provided a sound program of debt management, offering an optimum choice for the borrower in selecting payment terms, without a bewildering array of decisions, and a basis for effective servicing.

In point of fact, Mr. Chairman, the concept of loan consolidation became engulfed in a wave of hyperbole and dissention which robbed high indebtedness students of their ability to manage the high debt levels the law allows them to incur. The program became embroiled in disputes over who should consolidate loans, or with which sources of funds, or who should guarantee the loans, or who should be eligible to consolidate, or how much subsidy should be provided—with the simple and unfortunate result that students no longer have loan consolidation. So we begin again, Mr. Chairman, with the same question you asked me in 1979—how do we help these students to manage their debt burdens to prevent defaults? At least this time we already know it can be done.

BENEFITS OF THE LOAN CONSOLIDATION CONCEPT

There are benefits for both the student and the government in allowing loan consolidation. The borrower benefits by having extended repayment for high indebtedness, graduatd repayment for income sensitivity, and a single payment rather than multiple payments. The government benefits from the repayment of NDSL loans to create further revolving funds, and, we believe, from a reduced default rate on both NDSL and GSLP loans.

The borrower benefits from loan consolidation by gaining an extended repayment to pay off large indebtedness. While the average indebtness of borrowers who consolidated under OPTIONS was approximately $13,000, more than a quarter of the consolidated loans exceeded $15,000, and some reached as high as $40,000.

For the average borrower, an individual with $12,000 of debt and gross income of $21,000, loan consolidation reduced the average monthly payment from $154 per month to $90 per month. Put another way, this average borrower, with take-home pay of approximately $15,000 a year, had annual payments reduced by 4.2 percent, from $1,848 a year to $1,080 a year.

Further, the most popular repayment plan under OPTIONS was the graduated repayment plan. This cash flow flexibility was obviously of value to the more than 70 percent of borrowers who chose it. Even though there are current regulations allowing graduated repayments for GSLs, I am not aware that any lender offers such a program. Income sensitivity is particularly important to the minority of students in the high indebtedness range.

Finally, for a student who had borrowed from more than one program or lender, each requiring a minimum repayment, the amount of a single payment for a consolidaed loan was far less than the sum several minimum payments.

The benefits to the government of loan consolidation included the potential recapture of NDSL revolving funds—though not a large amount, still some loan capital for additional lending without appropriations—and a reduced default rate. In 1983, the Department of Education challenged the default rate savings to the government. Today we have additional experience that the default rate on consolidated loans under the OPTIONS Program is 2 percent—well below the overall GSL rate.

CONSOLIDATIONS FOR ANY PROGRAM OF LOAN CONSOLIDATION

In order to help the minority of students who incur substantial debt deal with the burden of that indebtedness, loan consolidation is a reasonable approach. Any program will have the problem of balancing student benefits versus government cost. It is possible to design a program so that the government makes money if a student consolidates, but a reasonable student will not exercise that right. It is, however, possible to design a workable loan consolidation program which balances the needs of a small group of highly indebted students and the need to control government costs.

There are several major considerations in the design of any loan consolidation program which I would like to address to the Subcommittee's consideration: eligibility; restructured repayment terms; lender subsidy and eligibility; and complexity.

Each of these concepts is interactive; when you change one element you must reexamine the whole configuration.

Eligibility

The definition of eligibility will determine not only the number of participating students but also the level of lender participation, since the latter will depend on whether there will be a sufficient volume to support administrative expenses. Obviously, the more volume possible in the program the more likely it is that lenders will be willing to incur the costs of creating the necessary systems. However, depending upon how great the subsidy in the program, a large volume may be prohibitively expensive to the federal government.

Under the Education Amendments of 1980, a student had to have an indebtedness of $5,000 from two or more programs or lenders or $7,500 from one program or lender in order to consolidate. Our data base, the largest available on student loans, indicates that 72 percent of borrowers have indebtedness of less than $5,000 and 87 percent have indebtedness less than $7,500. We estimate that less than 15 percent of all GSL participants qualify under the 1980 eligibility criteria. This projected low program volume indicates that it cannot be cost effective for all GSL lenders to participate in consolidation with any reasonable expectation of an adequate return. Volume must be considered as a factor which determines participation, along with the potential complexity of the program.

Another question related to eligibility is whether a student should be able to consolidate while still in the grace period or while in repayment. Under OPTIONS, almost 60 percent of borrowers were in the grace period. If a student must first be in repayment to consolidate, all holders of the underlying loans are penalized because they will have incurred the substantial cost of converting borrowers to repayment only to lose the loan shortly thereafter to a consolidator. Further, the federal government may save interest subsidy costs if the student consolidates in the grace period, because the first payment becomes due 60 days after consolidation, potentially sooner than the repayment date of the original loans.

Eligibility also includes the question of which loans should be eligible for consolidation. The 1980 Amendments allowed consolidation of both GSL and NDSL. Sallie Mae could also have included HEAL loans. However, in order to avoid disruption in the Health Manpower subsidy tier, at the request of the health authorizing committees, we did not offer HEAL consolidation. A small proportion of the debt consolidated under OPTIONS was NDSL—less than 10 percent. The government suggested that the cost of extending the special allowance subsidy to NDSL consolidated indebtedness was substantial. We believe this cost is offset by the benefits of NDSL liquidity to schools. Further, if the goal is to manage a borrower's indebtedness, we should be treating the whole problem not merely the GSL portion.

Eligibility also encompasses the question of whether to include a "needs" analysis in order for a borrower to qualify for loan consolidation. As we are all aware, such tests increase administrative costs to the lender. In this case there would be no financial aid administrator to certify "need" to the lender. We believe Congress should presumptively determine need based on indebtedness levels. However, should a needs analysis be determined necessary, we suggest the least onerous and administratively simplest test possible be applied. We caution, however, that initial employment history of most full-time students renders meaningless any needs test applied immediately after graduation.

Restructured repayment terms

The terms to the students include extended terms to maturity, flexible repayment terms (graduated or fixed payment), interest rates, and mandated minimum repayments.

In our experience, the key elements for borrowers are extended repayment and graduated repayment. Extended repayment can reasonably be related to the level of indebtedness of the borrower. There is no logical reason to extend a total $2,000 indebtedness to 20 years. Under OPTIONS the following schedule applied:

Maximum repayment

Loan Amount:	Years
$5,000 to $7,499	10
$7,500 to $10,999	13
$11,000 to $15,999	16
Over $16,000	20

You can design any number of schedules; however, the point is that debt becomes more manageable as a portion of a borrower's disposable income as the term to pay it off is extended.

Graduated repayment merely reflects the normal income expectations of most borrowers—it increases payments as the borrower's income increases. Graduated repayments are currently possible under the GSL Program. I am not aware that anyone offers students a graduated repayment schedule. From our experience the reason is obvious—it is administratively costly and time consuming for lenders. We built a system to create such schedules, and it was far more complex and costly than we thought it would be. As I have stated, almost three-fourths of the students who consolidated under OPTIONS chose graduated repayments. Further, our data indicates that more than 80 percent of defaults occur in the first 24 months of repayment. Graduated repayment provides the lowest payment option during the high default period.

The interest rate coupled with the repayment schedule determines whether a student chooses to consolidate by determining the monthly paymen. If an interest rate is set which is higher than that on the student's underlying student loans, the interest rate operates as a penalty to the student for the extension or graduation of repayment. For example: About 90 percent of current borrowers have 7 percent loans. Increasing the interest rate to 10 percent for their 7 percent GSL borrowers will increase the stated interest rate by over 40 percent, increasing total interest paid over the life of the loan by more than 124 percent for level terms and more than 160 percent more for graduated terms. These interest penalties are such that the typical borrower nets only a 10 percent reduction in monthly payments. Thus, the time value of money gain to the borrower would be inconsequential, if positive at all. There would be no demand for a 10 percent product from 7 percent GSL borrowers. Nine percent GSL borrowers might, however, still be able to benefit from a monthly reduction of payments. A program of loan consolidation which on its face operates as a penalty to the borrower is not likely to be a viable default prevention mechanism.

Some have suggested a weighted average interest rate rather than one set by law. We do not believe that the concept of a weighted average interest rate is a viable one. Under the Sallie Mae OPTIONS Program, borrowers were provided 48 different payment plans to match the new payments with their particular financial situation. We believe that maximum borrower participation in the financial decision helps reduce the likelihood of default. If weighted rates were applied, the number of permutations and combinations o monthly payments would be finite, and the borrower could not be informed of the new payment schedules until after the new promissory notes were generated. Further, the federal government interest billing procedures currently require that a bill be itemized by stated interest rate and separated by origination date (some loans have a different special allowance payment rounding formula depending on the date originated). It would be extremely difficult to accurately generate and control the government interest billing if weighted rates are reported to and must be validated by the Department of Education. The reduction in monthly payments to borrowers would virtually be nil, while the administrative complexities to consolidators would be substantial.

A further consideration is minimum repayment requirements either as an arbitrary amount or as a percentage of interest due. These proposals, unless carefully calculated, could minimize or eliminate any benefit to the borrower in reducing payments even under a graduated repayment system.

Lender subsidy and eligibility

It as been suggested that because all consolidated loans are high balance loans, lenders should receive a lower special allowance than that for other GSLs. I will discuss the special allowance in more detail later today; however, the basic analysis holds true: the special allowance is designed to provide an equitable rate of return to the lender to encourage participation.

The special allowance cannot be viewed in a vacuum. Loan consolidation under OPTIONS was a small volume program with great complexities and with high administraive costs. The appropriate level of lender return on a consolidated loan can probably only be determined after the rest of the program has been designed.

Which lenders should be eligible to consolidate and with what type of funds, taxable or tax-exempt, are policy questions this Subcommittee must address. Sallie Mae has no opinion on such policy issues. We will, however, endeavor to offer a national system of loan consolidation under any reasonable terms.

Complexity

The concept of loan consolidation has the potential to create a system vastly more complex than the already complex GSL. There are administrative costs associated with complexity which cannot be ignored.

In creating OPTIONS, Sallie Mae had to begin from scratch, investing sigificant amounts of time, money, and expertise. I have already outlined the complexity of the program and further data is provided in the appendix to my statement. I want to stress, however, that such complexity is built into any consolidation program which contemplates pay off of existing loans. Further conditions and requiremens exacerbate an already complex program. You must take into account this complexity in the design of any consolidation program you authorize, if such a program is to achieve its desired objectives.

We cannot stress too strongly the advantages to the student and to the program of a nationally uniform set of consolidation standards and uniform originating and servicing requirements for consolidated loans.

The GSLP is theoretically a national uniform student credit mechanism. In reality it is not. Every guarantor has a slightly different set of rules to be followed in the creation and servicing of a GSL. This has created substantial servicing problems in the GSLP. Lack of uniformity in the GSLP means that each set of rules requires a different servicing system, creating uncertainty as to the availability of servicing capacity over the life of a student loan.

The potential for crippling complexity for borrowers, lenders, and servicers is inherent in the loan consolidation concept unless a nationally uniform system is mandated. Because loan consolidation offers the student a variety of repayment plans, in length of repayment and amount of payment, the permutations and combinations could be limitless unless uniformity is mandated. For example, if Sallie Mae offers three options to the student with a certain level of indebtedness, one fixed repayment and two different graduated repayments; state A may offer five; lender B two; etc. None of these may be identical or even similar except with respect to such basic features as interest rate. This will create the necessity for different servicing computer routines for each type of consolidation loan, most of which will probably be incompatible and incapable of servicing nonconforming loans.

Further, without mandated uniformity, the documentation, the forms, and the procedures could vary widely; they do in GSL, and the potential is vastly greater in consolidation. In confirming loans and providing documentation necessary to determine indebtedness, lenders could be faced with multiple sets of guidelines and documents to the point of discouraging support for consolidation.

Most importantly, lack of uniformity could undermine the whole purpose of loan consolidation by so confusing borrowers that they fail to take advantage of consolidation even if the alternative is a crushing debt burden—and default. Such borrower confusion could even affect overall edcation financial planning as early as high school, because the terms and conditions available to repay student loan debt would be uncertain.

We believe a national, uniform system is an absolute necessity in this program. To allow a proliferation of nonconforming paper will overburden an already constrained servicing system. Mortgages have moved in precisely the opposite direction; there is now a national system of documentation for home mortgages. Such a concept is possible for student loans and an absolute necessity for loan consolidation. At a minimum, we sincerely believe the standards for loan consolidation must be uniform if we are not to create a bewildering array of nonconforming programs which will confuse students, and create havoc for the delivery system.

Mr. Chairman, at Sallie Mae we spent a year creating a workable loan consolidation program, we spent a year running it and providing a benefit to students, and we spent a year trying to save it from extinction. There are not many permutations or combinations of the basic structure of consolidated loans that we have not examined and analyzed. Sallie Mae is proud to have played a part in finding a workable means of handling high student idebtedness, and we will be pleased to aid this Subcommittee in any way we can to make sure students are given this alternative again.

Appendix 1

The loan consolidation process appears straightforward and simple:

A borrower is made aware of the program through:

a Sallie Mae mailing;
a financial institution mailing;
a school mailing or exit interview;
a guarantor mailing; or
national advertising.

The applicant contacts his/her school, creditor, and/or Sallie Mae to request further information.

Sallie Mae mails an application package including the required certification forms to the borrower. The certificates are used to verify that the underlying loans are NDSL, GSL, and/or FISL.

The borrower completes the application and borrower portion of the certificate. The completed forms are returnd to Sallie Mae.

The application and certificate are reviewed by Sallie Mae and pay-off date (60 days in the future) is assigned.

Certificates are mailed to the creditors.

The creditors complete and sign the certificates which provide account information, quote and required payoff as of the date projected above, and certify the information. The form is then returned to Sallie Mae.

Sallie Mae prepares a promissory note, which includes the repayment schedule selected by the borrower, and mails the note to the borrower for signature.

The borrower reviews the promissory note, signs it, and returns it to Sallie Mae.

The note is reviewed and payoff checks are mailed to the original creditors.

A coupon book is then sent to the borrower. Repayment begins in 60 days.

(NOTE: Creditors are expected to return obligatory documentation to the borrower based on their standard operating procedures.)

However, because the program (1) requires signed documentation, (2) is supported through the mail, and (3) reuires input from both borrower and multiple creditors, it is much more complex than would otherwise be obvious:

When borrwers receive an applicaton, they often do not complete it right away. Borrowers procrastinate because:

the application terminology is unfamiliar,
they do not want to lose their grace period,
they are out of town when the application arrives,
they have questions about the product, or
it takes time to gather the information necessary for completion.

If a borrower does not complete the application on a timely basis, he/she can miss the opportunity to enter loan repayment under the OPTIONS Program. This causes creditor dissatisfaction because conversion is the most costly phase of student loan processing.

The product concept is simple. The product benefits become complex. Borrowers do not understand:

who qualifies,
what the terms of the loan will be,
how to choose which Option is right for them, or
the intricacies of the decision-making process involved in deciding financial alternatives with which they must live for up to 20 years.

In fact, we find borrowers do not understand many financial details vis-a-vis student loan indebtedness.

They don't know who their creditors are while in grace.
They don't understand reassignment, i.e., the purchase program.
They don't know if their loans are GSL, NDSL, or FISL.

This results in calls to the consolidation center. Three-fourths of those who consolidate will call the consolidation center with questions sometime during the consolidation process.

Each caller, on average, calls twice.
Each call lasts five minutes.
In many cases, we are asked to play the role of financial advisor; for example, we are asked to advise about which Option and term the borrower should choose.

Due to the transient nature of the borrower population, certain borrowers do not receive the application after it is mailed. This causes:

phone calls to Sallie Mae to request a new application, and
the process of mailing applications must be repeated.

Since the legislation authorizes OPTIONS to payoff only principal and accrued interest, the payoff has to occur on the prescheduled date. This causes the application process to be time sensitive and delays caused by incomplete or incorrect information become problematic.

Critical information, such as creditor name and address, is required to process the application. Lack of information:

necessitates a phone call or letter to the borrower, which usually takes two tries;

when reached, the phone call averages ten minutes.

Often there is borrower confusion over the $5,000 and $7,500 debt levels.

We thus get applications from those who don't qualify because of the misunderstanding of single vs. multiple debt, and/or the inclusion of interest.

Those on the border of qualifying in the grace period are forced to wait until repayment to apply (so they will qualify), which causes phone calls or letters to answer questions.

The process is mail oriented. All paperwork must be signed. The characteristics of the population are transient and mail forwarding causes delays which create process hold-ups and redundancies.

Each problem that arises causes a phone call between the borrower and Sallie Mae. This results in the use of a considerable amount of customer service time and causes delays which affect product delivery on the scheduled date. This affects the amount required to pay the underlying debt in full.

Certificates are returned with the borrower portion incomplete. Because OPTIONS is a GSL loan and the OPTIONS documentation supports the validity of the underlying loan, in the event of a future claim the application cannot be processed without a signed certificate.

We must call the borrower or creditor to obtain the information (creditor name, address, and borrower balance).

Each call on average lasts 5 minutes and requires 2 tries.

Creditors often delay returning certificates to Sallie Mae.

We must send a letter to the borrower advising of the delay and the potential effect it will have on the closing schedule.

Delays cause pay-off dates to be missed.

The delay causes additional interest accruals, and makes certificate updates necessary.

Delays require calls to creditors and/or borrowers.

Some creditors have trouble completing the certificate or confuse the program with a loan purchase program.

Creditors confuse grace, deferred, delinquent, and default statuses, and report them in error.

They will call the consolidation center for help.

They will refuse to verify the certificate because it is viewed as a competitor request as opposed to a client request.

Letters to follow-up these delays are often met with resistance, creating additional follow-ups and delays.

When borrowers are notified that their creditors have not returned the certificates, and are urged to contact the creditor to remedy the situation, they call Sallie Mae to ask help in getting the institution to cooperate in the consolidation process.

This requires additional phone conversation with the borrower, and

requires a call to the bank, school, or guarantor.

When all of the borrower's certificates are returned, the certificates are often returned with different debt levels than the borrower indicated on the application. This may cause:

calls to the borrower or creditor, or

a restart of the certificate process.

At times, certificates will indicate the borrower is delinquent or in default. A decline will result and may generate a call from the borrower.

Some statuses are obviously in error and are remedied by contacting the creditor.

When all of the certificates are reviewed and verified as complete, the promissory note is prepared and sent to the borrower.

Borrowers sometimes hesitate to sign the promissory note when they receive it because:

This is the first time they may have seen the full disclosure of all debt, and they are unsure it is accurate.

They want to select a different repayment schedule.

This causes missed payoffs, requiring certificate updates and generation of new promissory notes.

If the note is not signed and sent back to us within the allowed time, the borrower misses the payoff date. This requires:

certificate updates,
communication with the borrower and all creditors, and
a new promissory note.

APPENDIX 2

Sallie Mae
has already helped
thousands of
student loan
borrowers
cut their monthly
payments by as
much as half.

Now let us
help you.

Introducing the Student Loan Marketing Association (Sallie Mae) OPTIONS Program

Remember how happy you felt when your student loans came through and eased the worry about how to pay for school? Now that you've graduated you may have a new concern—how to repay your student loans.

Repaying student loans doesn't have to be overwhelming, though. With planning and budgeting, your payments can be manageable. And the Sallie Mae OPTIONS program can help make your loan repayment even more affordable.

How Sallie Mae helps

In 1972, Congress chartered Sallie Mae to work closely with lenders to promote the accessibility of student loan credit. In 1981, we were authorized by Federal law to create a program that would make repayment easier for student loan borrowers. This new service, called OPTIONS, is another way Sallie Mae contributes to the national student loan program. Under OPTIONS your existing student loans are combined into one new, manageable, easy-to-pay loan made under the Federally regulated Guaranteed Student Loan Program. When you take advantage of OPTIONS, you help other students who need loans because the OPTIONS program circulates money back to lending institutions and schools to help them make new student loans.

How you benefit

You keep more money each month.

Borrowers who have taken advantage of the OPTIONS program have reduced their monthly loan payments by as much as 40 to 50%. This chart illustrates the average reduction for borrowers who have already benefitted from the OPTIONS program.

Loan Category	Average Old Payment	Average OPTIONS Payment	Average Monthly Reduction
$5,001- $7,500	$ 96.00	$ 58.00	$ 38.00
$7,501- $11,000	122.00	72.00	50.00
$11,001- $15,999	166.00	96.00	70.00
$16,000 or more	214.00	123.00	91.00

These savings mean increased financial flexibility for you and more money to spend on the things you need now.

You pick the terms of your repayment.

There are three different OPTIONS repayment plans to choose from. With each plan you write one check, once a month to Sallie Mae. In the next few pages, we'll explain each plan.

How you become eligible

To find out if you're eligible, first add up the approximate amount of money you still owe on your GSL, NDSL, or FISL* loans which are in good standing and which you want to combine. Keep in mind that you don't have to combine every loan you hold. Just as long as the amount adds up to more than $7,500, you are eligible for OPTIONS.

If the amount adds up to more than $5,000, but less than $7,500, you are eligible, but only if your loans are from more than one lender, program, or guarantor.

*Only Guaranteed Student Loans (GSL), National Direct (Defense) Student Loans (NDSL), and Federally Insured Student Loans (FISL) qualify

How the program works

Sallie Mae pays off your existing student loans and creates one new loan. If you choose, you can have more time to repay this loan than you had with your original loans. These additional months to repay mean lower monthly payments.

There are three OPTIONS repayment plans to choose from. Your choice should be based on how much you can budget each month for your loan payment, how long you want to take to repay your loan, and your income expectations for the future.

OPTION 1: With OPTION 1, your monthly payment amount will be the same for the entire term of the loan. This amount can be considerably less than the total amount you are currently paying. And you select the payment that best fits your budget. You'll never pay any more than the amount you select. So as your income rises, it's good to know that your monthly payments won't.

OPTION 2: With OPTION 2, your payments start out low and increase gradually. So if you've just become established in your career, this may be the plan for you. It makes your payments manageable now and still affordable later. And, within certain limits, you select how long you want to take to repay your loan. As a result, you can control your cash flow.

OPTION 3: With OPTION 3, your monthly payments start out low, then increase more rapidly than with OPTION 2. So if you expect your earning power to rise quickly, you can pay off your loan with fewer payments. And like OPTIONS 1 and 2, you can choose, within certain limits, how long you want to take to repay your OPTIONS loan.

How to choose your OPTIONS

The chart below helps you approximate your monthly payment under each OPTION. These are the lowest possible payments for each loan amount and they are based on the maximum number of months you can take to repay your loan.

To see how the OPTIONS program works, find the amount closest to what you currently owe. The maximum amount of time you can take to repay the loan is listed next to each OPTION. For OPTION 1, the approximate monthly payment throughout the life of the loan is listed. For OPTIONS 2 and 3, where payments increase every two years until the loan is repaid, the approximate first, midpoint, and final payments are listed. Remember, you can choose the OPTION you prefer, and, within certain limits, the amount of time to repay the loan.

Total Loan Amount		Maximum Term (in months)	First Payment	Midpoint Payment	Final Payment
$5,000	OPTION 1 (Level)	120	$58	$58	$58
	OPTION 2 (Graduated)	120	39	59	90
	OPTION 3 (Accelerated)	96	39	80	116
$10,000	OPTION 1 (Level)	156	$98	$ 98	$ 98
	OPTION 2 (Graduated)	156	70	105	156
	OPTION 3 (Accelerated)	127	70	109	214
$15,000	OPTION 1 (Level)	192	$130	$130	$130
	OPTION 2 (Graduated)	192	98	130	189
	OPTION 3 (Accelerated)	161	98	152	236
$20,000	OPTION 1 (Level)	240	$155	$155	$155
	OPTION 2 (Graduated)	240	125	160	216
	OPTION 3 (Accelerated)	207	125	179	256

How to know OPTIONS is right for you

- OPTIONS loans are GSL loans and carry a fixed interest rate of 7%. If you hold any loans with a lower interest rate, you will still save money on your monthly payments with OPTIONS. The money you save now can offset the increased interest rate.
- With OPTIONS, you don't have to worry about any origination fee or any other kind of supplementary charge.
- Only GSL, NDSL, and FISL are eligible for the OPTIONS program. Regular consumer loans or other student loans are not eligible.
- You and your spouse cannot combine your loans, nor can you combine your loans with loans your parents hold.
- As with other GSL loans, you're entitled to deferment rights with OPTIONS. The only difference is the way the interest is handled. With OPTIONS, the government does not pay the interest during deferment. However, interest may be deferred by you and added to the principal amount of the loan.

How to apply for OPTIONS

Now that you know how to lower your monthly student loan payments, simply fill out the attached envelope. We'll begin processing your application for OPTIONS right away. If you still have any unanswered questions, call our Customer Service Center at 800-446-4000 toll free.

Yes, I'd like to apply for OPTIONS

Name ______________________________

Address ______________________________

City ______________________________

State ________________ Zip ________

Social Security Number ______________________

Daytime Telephone ______________________

Evening Telephone ______________________

Date You Last Attended School (Month/Year) ____________

How Did You Find Out About OPTIONS?

☐ School
Which one? ____________

☐ Bank or other financial institution
Which one? ____________

☐ Sallie Mae offer

☐ Guarantee agency

☐ Servicer

☐ Newspaper

☐ Other media

☐ Friend/relative

☐ Other

To avoid processing delays, mail this application as soon as possible.

Loan Information

LENDER	PROGRAM (NDSL, GSL, OR FISL)	AMOUNT NOW OWED	DATE REPAYMENT BEGAN/WILL BEGIN

TOTAL NUMBER OF
LOANS ____
LENDERS ____

TOTAL OWED ____

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST CLASS PERMIT NO. 4711 BELTSVILLE, MD 20705

POSTAGE WILL BE PAID BY ADDRESSEE

Sallie Mae
Student Loan Consolidation Center
P.O. Box 973
Beltsville, MD 20705

Student Loan
Consolidation Center
P.O. Box 1600
Merrifield, VA 22116
[illegible]

OPTIONS

Dear Applicant,

Thank you for your interest in OPTIONS. Enclosed are all the materials you will need to apply. The following forms have been included:

One Instruction Sheet
One Application
One Certificate (Two if you listed more than 3 creditors)
One #10 Postage Paid Envelope to return the completed
application and certificate to Sallie Mae
One OPTIONS Selector
One Benefits Comparison Chart

If any of the forms are missing, or if you have questions regarding their completion, please call 800-446-4000.

As soon as we receive your completed application and certificate(s), we will begin processing your request. It will take about 60 days. If any delays occur during the processing, you will be notified.

We feel we have a very attractive plan for you and look forward to receiving your application. Why not complete the forms *TODAY!* and let OPTIONS work for you?

Student Loan Consolidation Center

Enclosures

OPTIONS

STUDENT LOAN MARKETING ASSOCIATION GENERAL INFORMATION ABOUT YOUR APPLICATION

About The Program

OPTIONS was authorized by Congress for implementation by the Student Loan Marketing Association (Sallie Mae). With the soaring costs attendant to obtaining a post-secondary education many students find themselves borrowing under either, or both, the Guaranteed Student Loan Program (GSLP), and the National Direct/Defense Student Loan Program (NDSL). Of course, increased costs mean larger loans and that means higher payments when the loans must be paid back. Because of these higher payments some ex-students have found themselves unable to meet their obligation(s) and they end up failing to repay their debt. OPTIONS is offered as one way to reduce the default rate. By consolidating several loans and/or extending repayment term the debt becomes more manageable for the borrowers. The net result will be fewer defaults and overall lower cost for the government (TAXPAYER) to support the program.

The instructions which follow are intended to help you complete your application both quickly and accurately. Please feel free to contact us if any questions arise while you are filling out the forms.

Qualification

- In order to qualify for OPTIONS you must have over $5,000 (principal + interest) outstanding in guaranteed student loan indebtedness made under either the National Direct/Defense Student Loan Program (NDSL), the Guaranteed Student Loan Program (GSL), and/or Federally Insured Student Loan Program (FISL).
- If you owe between $5,000 and $7,500, your indebtedness must be to more than one creditor or under both programs, or if all loans are GSL loans, insured by more than one guarantee agency. The multiple indebtedness criteria are not applicable if you owe more than $7,500 on your qualifying student loans.
- You are not required to consolidate all of your qualified student loans, but all of the loans you want to consolidate must be current. Delinquent, defaulted, or deferred loans do not qualify for consolidation. This includes loans that become delinquent during the consolidation process.

The Process

After you have reviewed the material in the package, your next step is to complete the application and select your OPTION. Then complete the top half of the verification certificate and return both the application and certificate to Sallie Mae in the postage-paid envelope provided for that purpose.

Upon receipt of your signed application, Sallie Mae will: 1) Assign a scheduled payoff date 60 days from the day we receive your package, and 2) forward the certificates to your creditor(s) for completion. When your creditor(s) have returned the certificates we will prepare a Promissory Note and mail the new note to you for your review and signature. The promissary note will:

> Show how much and when Sallie Mae will pay each creditor.
>
> Disclose the interest rate, total loan amount, total interest to be paid, and the OPTIONS repayment schedule you selected.

When you return your signed Promissory Note to us we will mail the check(s) to your creditor(s) for the amounts stated on the Note. Each check will be payable to your creditor to be applied against your student loan account. We will notify you of the check remittance and explain your repayment obligations.

Within 30 days after you receive this notice you will receive your first bill from Sallie Mae.

We estimate that it will take between 45 and 60 days to complete the process. This timing assumes a quick response from you and your creditor(s). *During this period it is critical that you continue making payments on your existing loan(s)!*

Forms Completion

Before proceeding, please inventory the package and make sure you have all the forms indicated on the cover letter. If you don't — call us at (800) 446-4000.

The application, certificate and OPTIONS SELECTOR have instructions detailing how to complete (or use) them. Some highlights on each form may be useful.

Application

- Make sure to include your Social Security number and sign and date the form.
- Complete the Student Loan information section as best you can. While the amount owed does not have to be exact, if you know your exact balance(s), it will help speed up the process. If you don't know the answers to these items you may want to call your creditor(s) and verify your record(s). This will also help you complete the Certificate information. Please compare the three Repayment Options available in the OPTIONS SELECTOR, select the one that best fits your needs and then indicate your choice in the OPTIONS Section.
- Mail the form to Sallie Mae in the enclosed postage-paid envelope.

Certificates

- The verification certificate is a multipart form designed so you only need to complete the information one time. This form is used to authorize your creditors to release information about the loan(s) you want included in the consolidation. One certificate will provide information for up to 3 creditors.
- Make sure to provide a complete mailing address for each creditor.
- You must provide the account information requested.
- The form MUST be SIGNED and DATED.
- Enclose the completed certificate(s) in the postage-paid envelope with the application and return them both to Sallie Mae.

OPTIONS Selector

This pamphlet illustrates the three repayment plans available to you. The number of different monthly payments you may choose from is based on your total outstanding balances. This booklet is provided as a guide to aid you in your selection. The amount of monthly payments may differ slightly from that on your Promissory Note. Assuming your estimated balance is correct and agrees with your creditor(s) and you use the selector properly, your OPTIONS Promissory Note and repayment schedule will reflect the plan and monthly payment term you chose.

Your New Loan

When your loans are consolidated the new OPTIONS loan you receive will be from Sallie Mae. The OPTIONS loan will be a GSL bearing a 7% interest rate (Annual Percentage Rate). Your new OPTIONS loan enters repayment status the day it is made and the first payment will be due within 60 days of the date the check(s) are mailed to your creditor(s).

IMPORTANT!!! Every effort will be made to remit the payoff amount to the creditor on the scheduled date. Occasionally, however, the exact amount required to pay the old loan will not be remitted because the payment is not received on the originally scheduled date. In the event of underpayment or overpayment *it is your responsibility* to resolve any difference with your creditor and to take the required action to pay the old loan in full.

Since the new loan is a GSL, the NDSL benefits* you now have will no longer be applicable. The NDSL(s) you consolidated is/are paid in full. (See important note above). However, you will be eligible for the GSL benefits* that exist when you consolidate. Your OPTIONS loan will bear the same basic benefits as other GSL loans and you will have the same basic rights and responsibilities to Sallie Mae as you did to your previous GSL creditors. These will be detailed in the Promissory Note. You should be aware that if you consolidate an NDSL loan, you will lose the lower NDSL interest rate and forgiveness of repayment due to teaching.

**See the enclosed benefits chart for a description of these benefits.*

APPLICATION INSTRUCTIONS

OPTIONS

IMPORTANT: Detach this sheet, carefully read the instructions that follow, and retain for future reference. Type or print clearly all information requested.

TWO EASY STEPS

Step 1 Complete all items in the Application.

Step 2 Mail the application to Sallie Mae immediately in the enclosed postage-paid envelope.

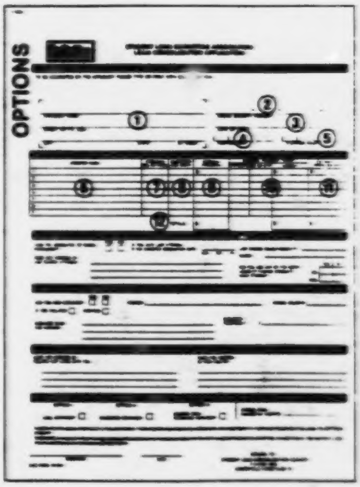
Item No. **ENTER THE FOLLOWING INFORMATION:**

1. Your name and complete address.
2. Your social security number must be given. If incomplete, the application will be returned.
3. Your birthdate.
4. A telephone number where you can be reached during the day hours.
5. A telephone number where you can be reached during the evening hours.

STUDENT LOAN INFORMATION

6. The full name of each of your student loan creditors to whom you are sending certificates.
7. Either "GSL" (Guaranteed Student Loan) or "NDSL" (National Direct or Defense Loan) depending on the student loan program under which the corresponding loan was made. Other student loan programs do not qualify for consolidation under the OPTIONS program.
8. The initials of the guarantee agency which insured your GSL student loan. Refer to the guarantee agency codes on the reverse side of the certificate if you do not know these initials. Enter "N/A" if corresponding loan is an NDSL loan.
9. The original principal amount of each loan.
10. Original Payment Terms. Enter in the corresponding blocks the repayment terms for each account. This information can be obtained from the Repayment Schedule or Disclosure Statement provided by your creditor:
    - # Payments—the total number of payments.
    - Monthly or Quarterly—how often you make each payment.
    - Payment Amount—amount of each payment.
11. The amount now outstanding with each creditor (principal plus unpaid accrued interest, if any).
12. The sum of each column in the appropriate Total block.

NOTE: Item 11 "Total" must be at least $5,000 to be eligible for consolidation.



SCHOOL INFORMATION

13. Your graduation/school separation date in the appropriate blocks.

14. The name and address of the last school you attended.

15. The last degree you sought. For example: BA, BS, MBA, MD, JD, etc. Enter one of the following codes for your major course of study:

16.

Code	**Classification Code**
01	Agriculture/Natural Resources
02	Arts/Communication
03	Architecture
04	Business/Finance/Computer Science
05	Engineering/Technical
06	English/Journalism/Foreign Language
07	Forestry/Environmental Science/Geography/Geology
08	Health/Medicine/Nursing
09	Home Economics
10	Law/Government Service/Political Science
11	Math/Statistics
12	Philosophy/Psychology
13	Religion
14	Scientific/Library Science
15	Social Science/History
16	Teaching
17	Trade/Industrial Training
18	Other

17. This item must be completed.

EMPLOYMENT INFORMATION

18. Appropriate data about your employment status.

19. Your employer's name and address (if applicable).

REFERENCES

20. Enter the full name and complete mailing address of a relative not living with you.

21. Enter the full name and complete mailing address of a non-relative not living with you.

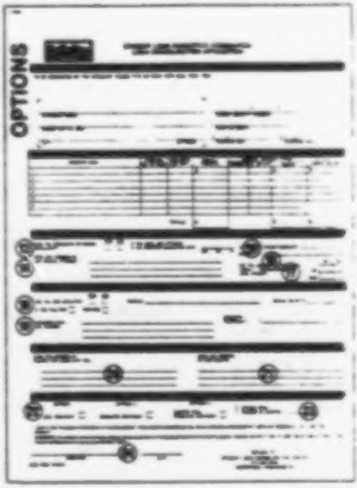
OPTIONS CHOICE

22. Select your desired repayment option and enter an "x" in the corresponding box. Refer to the OPTIONS Selector for instructions and guidance in selecting the right option for your circumstances.

23. Enter the term (number of months) you desire for your OPTIONS repayment period. Refer to the OPTIONS Selector for assistance in making the appropriate choice.

NOTE: If you fail to complete these items, Sallie Mae will give you OPTION I with the shortest term.

24. Sign and date the Application and return both copies to Sallie Mae.



OPTIONS

STUDENT LOAN MARKETING ASSOCIATION
LOAN CONSOLIDATION APPLICATION

YES ☐ NO ☐

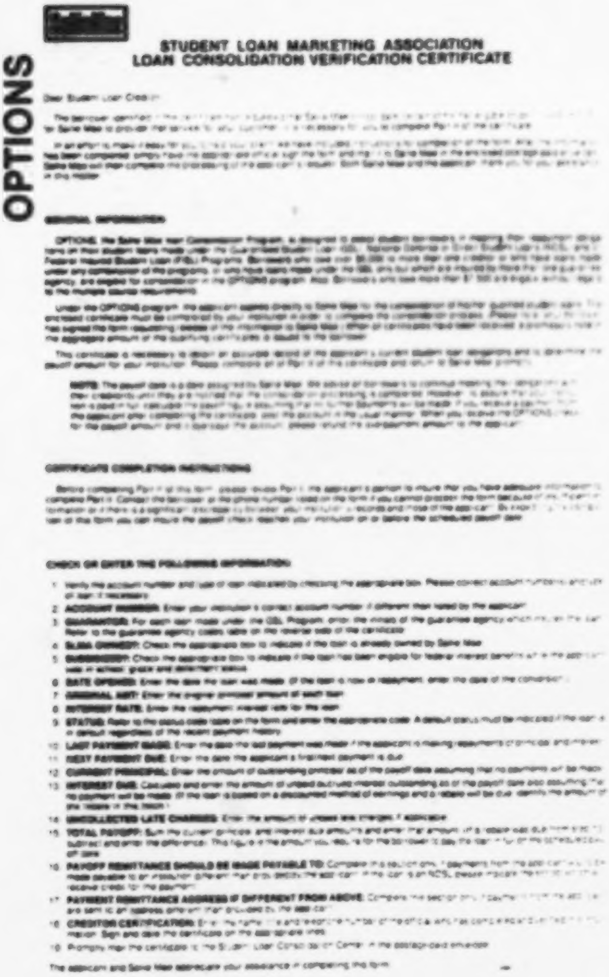
TOTALS $ $ $

TELEPHONE ( )

TELEPHONE ( )

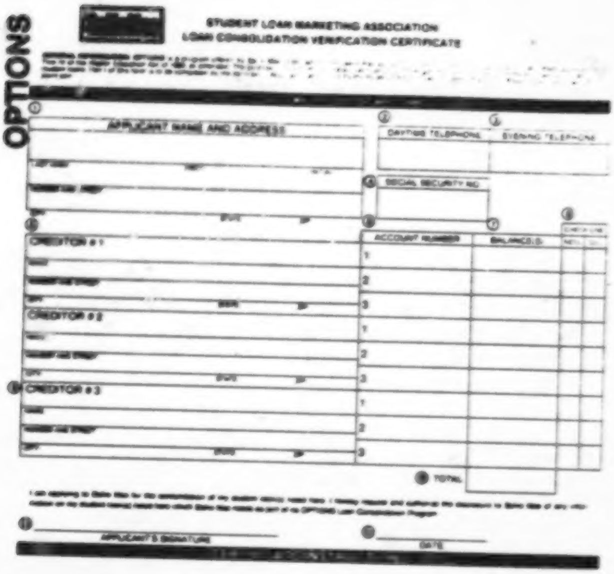
OPTION I ☐ OPTION II ☐ OPTION III ☐

RETURN BOTH COPIES TO
STUDENT LOAN CONSOLIDATION CENTER
P.O. BOX [illegible]



OPTIONS

STUDENT LOAN MARKETING ASSOCIATION
LOAN CONSOLIDATION VERIFICATION CERTIFICATE



OPTIONS

STUDENT LOAN MARKETING ASSOCIATION
LOAN CONSOLIDATION VERIFICATION CERTIFICATE

① APPLICANT NAME AND ADDRESS

② DAYTIME TELEPHONE

③ EVENING TELEPHONE

④ SOCIAL SECURITY NO.

⑤ CREDITOR # 1

CREDITOR # 2

CREDITOR # 3

⑥ ACCOUNT NUMBER

⑦ BALANCE(S)

⑧ CHECK ONE

⑩ TOTAL

⑪ APPLICANT'S SIGNATURE

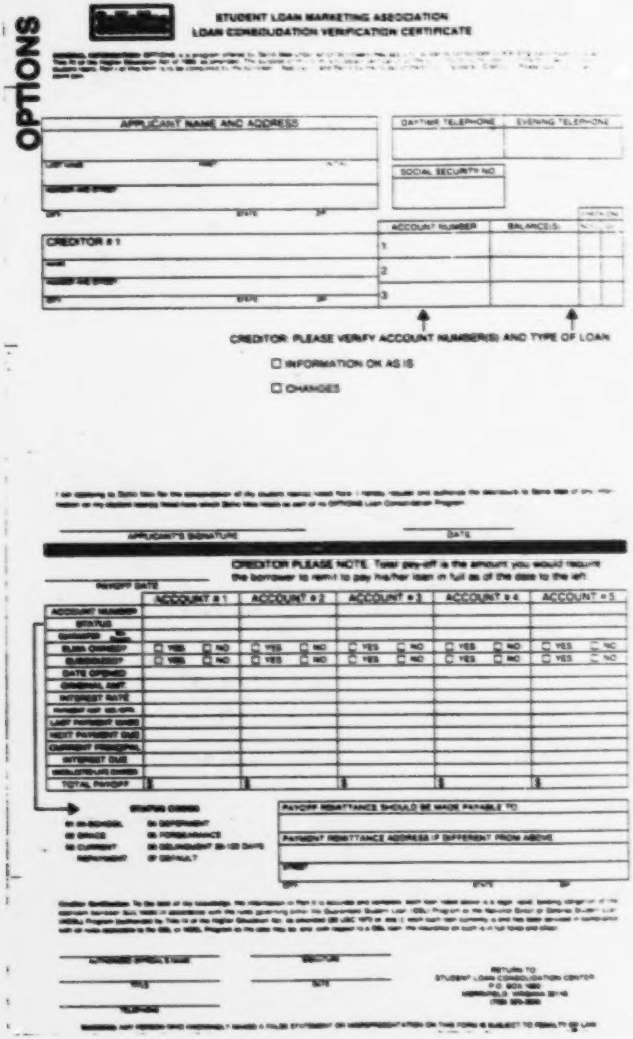
DATE

Please complete all of the above information. Type or print clearly (press hard with ball point pen). Complete the following information:

1. Your full name and complete mailing address.
2. A telephone number where you can be reached during the day hours.
3. A telephone number where you can be reached during the evening hours.
4. Your social security number.
5. The full name and complete mailing address of one creditor you want to include in the consolidation.
   Note: If you are making payments to a servicing agent of the creditor, please enter the servicing agent's name. The address you enter should be the same address where you now send payments.
6. The account number assigned to your loan(s) by your creditor. This number will assist your creditor to locate your loan records and process the certificate. If you do not know your account number, enter "unknown".
   Note: Although each loan should be listed separately, you need not repeat the account number if it is the same for all of your loans with the creditor.
7. The balance now outstanding on the loan. If you have more than one loan and your creditor has consolidated the individual loan balances into one repayment schedule, you may enter the aggregate amount outstanding.
8. Check "HEAL," "GSL," (FISL is a type of GSL) depending on the type of student loan program under which the corresponding loan was made.
9. Repeat steps 5-8 for each of your creditors.
10. Sum the individual balances and enter the total amount in the total box.
11. Sign and date certificate.

Review the certificate and make sure that all of the above items have been completed and are accurate. Contact the Consolidation Center if you need assistance in completing this form. Return all parts of this form and the application to the Consolidation Center in the enclosed envelope.

RETURN TO:
STUDENT LOAN CONSOLIDATION CENTER



OPTIONS

STUDENT LOAN MARKETING ASSOCIATION
LOAN CONSOLIDATION VERIFICATION CERTIFICATE

[illegible]

APPLICANT NAME AND ADDRESS

DAYTIME TELEPHONE
EVENING TELEPHONE

SOCIAL SECURITY NO.

CREDITOR # 1

ACCOUNT NUMBER	BALANCE(S)		
1			
2			
3			

CREDITOR: PLEASE VERIFY ACCOUNT NUMBER(S) AND TYPE OF LOAN

☐ INFORMATION OK AS IS

☐ CHANGES

[illegible]

APPLICANT'S SIGNATURE
DATE

CREDITOR PLEASE NOTE: Total pay-off is the amount you would require the borrower to remit to pay his/her loan in full as of the date to the left.

PAYOFF DATE

	ACCOUNT # 1	ACCOUNT # 2	ACCOUNT # 3	ACCOUNT # 4	ACCOUNT # 5
ACCOUNT NUMBER					
STATUS					
[illegible]					
[illegible]	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO
[illegible]	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO	☐ YES ☐ NO
DATE OPENED					
ORIGINAL AMT.					
INTEREST RATE					
[illegible]					
LAST PAYMENT MADE					
NEXT PAYMENT DUE					
CURRENT PRINCIPAL					
INTEREST DUE					
[illegible]					
TOTAL PAYOFF	$	$	$	$	$

STATUS CODES

PAYOFF REMITTANCE SHOULD BE MADE PAYABLE TO:

PAYMENT REMITTANCE ADDRESS IF DIFFERENT FROM ABOVE

[illegible]

RETURN TO:
STUDENT LOAN CONSOLIDATION CENTER

Thousands of borrowers have already cut their monthly student loan payments by as much as half. Now you can too.

If you owe more than $7,500, or if you owe between $5,001 and $7,500 to more than one lender,* you may be eligible for the Student Loan Marketing Association (Sallie Mae) OPTIONS program. Sallie Mae was authorized by Federal law to offer this loan repayment program at a fixed interest rate. With OPTIONS, your existing student loans are combined into one loan and you can choose an extended time to repay this loan. You'll have one monthly payment–lower than what you pay now. As much as 50% lower. For more information, complete this form.

We will send detailed information at no obligation to you.

NAME ______________________________

ADDRESS ______________________________

CITY ______________ STATE ______________ ZIP ______________

*Only Guaranteed Student Loans (GSL), National Direct (Defense) Student Loans (NDSL), and Federally Insured Student Loans (FISL) qualify.

BUSINESS REPLY MAIL
FIRST CLASS PERMIT NO. 2881 MERRIFIELD, VA 22116

POSTAGE WILL BE PAID BY ADDRESSEE

Sallie Mae
Student Loan Consolidation Center
P.O. Box 1600
Merrifield, VA 22116

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

SallieMae

PROJECTED
DISBURSEMENT
DATE ______________

Student Loan Marketing Association

PROMISSORY NOTE/PROMISE TO PAY

I, ________________________________ (NAME OF BORROWER), the borrower, promise to pay to the Student Loan Marketing Association (the lender) at P.O. Box 1600, Merrifield, Virginia 22116, or at such other address as designated by the lender, all of the principal sum of

____

$ ___________ to the extent it is advanced to me, plus an amount equivalent to daily simple interest on the unpaid principal balance at the rate of ________ percent per year. I will repay this loan in periodic installments in accordance with the Repayment Schedule set forth below. If I fail to pay any of these amounts when they are due, I will also pay all charges and other costs—including reasonable attorney's fees—that are permitted by Federal law and regulations and are necessary for the collection of these amounts. If this loan is referred for collection to an agency that is subject to the Fair Debt Collection Practices Act, I will pay those collection costs which do not exceed 25 percent of the unpaid principal and accrued interest.

ITEMIZATION OF AMOUNT FINANCED

The proceeds of this loan will be used to pay off my liability on the following loans:

	Creditor Name	Amount Paid To My Account With Student Loan Marketing Association	Amount Paid to Other Creditors
1			
2			
3			
4			
5			
	AMOUNT FINANCED TOTALS	A. TOTAL	B. TOTAL
		TOTAL AMOUNT FINANCED (A&B)	

The amount paid to each creditor represents the unpaid balance disclosed by the creditor. I understand that if, after payment of the amount listed, there is remaining unpaid balance or an account credit, it is my responsibility to resolve the matter with the applicable creditor.

REPAYMENT SCHEDULE/DISCLOSURE STATEMENT

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of payments
The cost of the credit as a yearly rate ________ %	The dollar amount the credit will cost. $ ________	The amount of the credit provided to me or on my behalf. $ ________	The amount that will be paid after all payments have been made as scheduled. $ ________

Repayment of the loan will be in ____ monthly installments, on the same day of each month, according to the following schedule:

________ payments of $ ________ beginning ________ ; ________ payments of $ ________ beginning ________
________ payments of $ ________ beginning ________ ; ________ payments of $ ________ beginning ________
________ payments of $ ________ beginning ________ ; ________ payments of $ ________ beginning ________
________ payments of $ ________ beginning ________ ; ________ payments of $ ________ beginning ________
________ payments of $ ________ beginning ________ ; ________ payments of $ ________ beginning ________

and a final payment of $ ________________ due ________________

Late Charge: If a payment is late, I will be charged $5 or 5% of the payment, whichever is less.
Prepayment: If I pay off early, I will not have to pay a penalty.
See the full promissory note for additional terms about nonpayment, default, prepayment, and prepayment refunds and penalties.

If disbursement of the loan is not made on the projected disbursement date, or if a payment is not made as scheduled (e.g., if I make a late payment or if I am entitled to a DEFERMENT), the lender may adjust the repayment schedule.

The lender has provided me with a copy of this Promissory Note the receipt of which I hereby acknowledge. The terms set forth on th reverse side of this page are part of this Promissory Note. The terms of this Promissory Note will be interpreted according to the law U.S.C. 1071 to 1087-2) and Federal regulations (34 CFR Part 682) that govern the Federal Insured Student Loan Program. I will pr notify the holder of this loan, in writing, of any change of my name or address.

________________________________ (SIGNATURE OF BORROWER)
________________________________ (STREET ADDRESS)
________________________________ (DATE)
________________________________ CITY STATE

The lender and I understand that the following terms apply to this loan:

FEDERAL INSURED STUDENT LOAN PROGRAM

This Promissory Note is evidence of a Federal Insured Student Loan which is made pursuant to the loan consolidation authority in Section 439(o) of the Higher Education Act of 1965, as amended (20 USC 1087–2(o)).

PREPAYMENT

I may, at my option and without penalty, prepay all or any part of the principal or accrued interest of this loan at any time.

DEFERMENT

To the extent authorized by Federal law, payments of principal will be deferred after the repayment period begins, provided I comply with the procedural requirements set forth in the Federal regulations governing the Federal Insured Student Loan Program (FISLP), in the following circumstances:

1. While I am enrolled in—
   - A. Full-time study at a school that is participating in the FISLP or a school that is an institution of higher education or a vocational school and is operated by an agency of the Federal Government;
   - B. A graduate fellowship program approved by the Secretary of Education ("the Secretary"); or
   - C. A rehabilitation training program for disabled individuals approved by the Secretary.
2. For a period not exceeding three years for each of the following while I am—
   - A. On active duty in the Armed Forces of the United States or serving as an officer in the Commissioned Corps of the Public Health Service;
   - B. Serving as a Peace Corps volunteer;
   - C. Serving as a full-time volunteer under Title I of the Domestic Volunteer Service Act of 1973 (ACTION programs);
   - D. In full-time volunteer service for an organization exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code of 1954, which the Secretary has determined is comparable to the service referred to in clauses B and C above, or;
   - E. Temporarily totally disabled, or unable to secure employment because I am providing care required by a spouse who is so disabled (disability must be established by a physician's affidavit).
3. For a period not exceeding two years while I am serving in an internship which the Secretary has determined is necessary for me to gain professional recognition required to begin professional practice or service.
4. For a single period not exceeding one year while I am conscientiously seeking but unable to find full-time employment in the United States.

To be granted a deferment, I must provide the lender with written evidence of my eligibility. I must subsequently notify the lender as soon as the condition for which the deferment was granted no longer exists.

INTEREST

1. I will be responsible for payment of all the interest that accrues on this loan.
2. The lender may add any interest that is not paid when it is due, and interest payable by me that accrues during authorized deferment periods, to the unpaid principal balance of this loan in accordance with Federal regulations governing the FISLP.

LATE CHARGES

If permitted by State law, the lender may collect from me a late charge if I fail to make any part of an installment payment within 10 days after it is due, unless I provide documentation that I am entitled to have the payment deferred as described in this Promissory Note. A late charge may not exceed $5 or 5 percent of an installment, whichever amount is less.

DEFAULT

If I default on this loan, the lender may declare the entire unpaid amount of the loan, including interest, immediately due and payable. A default may also make me ineligible for the benefits described under the DEFERMENT section in this Promissory Note. Under the Federal regulations governing the FISLP, any of the following events could be considered a default: my failure to make a payment when it is due or, in certain circumstances, my failure to notify the lender of a change in my name, address, or school enrollment status.

DISABILITY OR DEATH

If I become totally and permanently disabled, or if I die, my obligation to pay any amount owed on this loan will be cancelled.

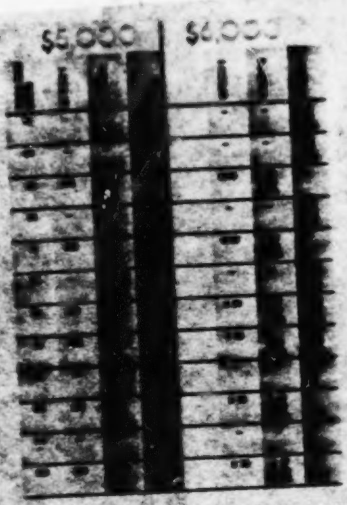
CREDIT BUREAU NOTIFICATION

If I default on this loan, the Secretary, using the following procedure, may disclose information about the loan to credit bureau organizations after the Secretary has attempted to collect the debt from me. If the Secretary knows my address, the Secretary must first notify me that such disclosure will be made unless I begin or resume payment. If I do not begin or resume repayment within 30 days of receipt of this notice, or such longer period as the Secretary may specify, the Secretary will disclose information about the loan to credit bureau organizations. If the Secretary does not know my address, the Secretary may disclose information about the loan to credit bureau organizations [illegible] order to learn my address. The lender must provide [illegible]mation on the repayment status of the loan to credit [illegible] organizations upon my request.

THE OPTIONS [illegible]

[illegible]

[illegible]



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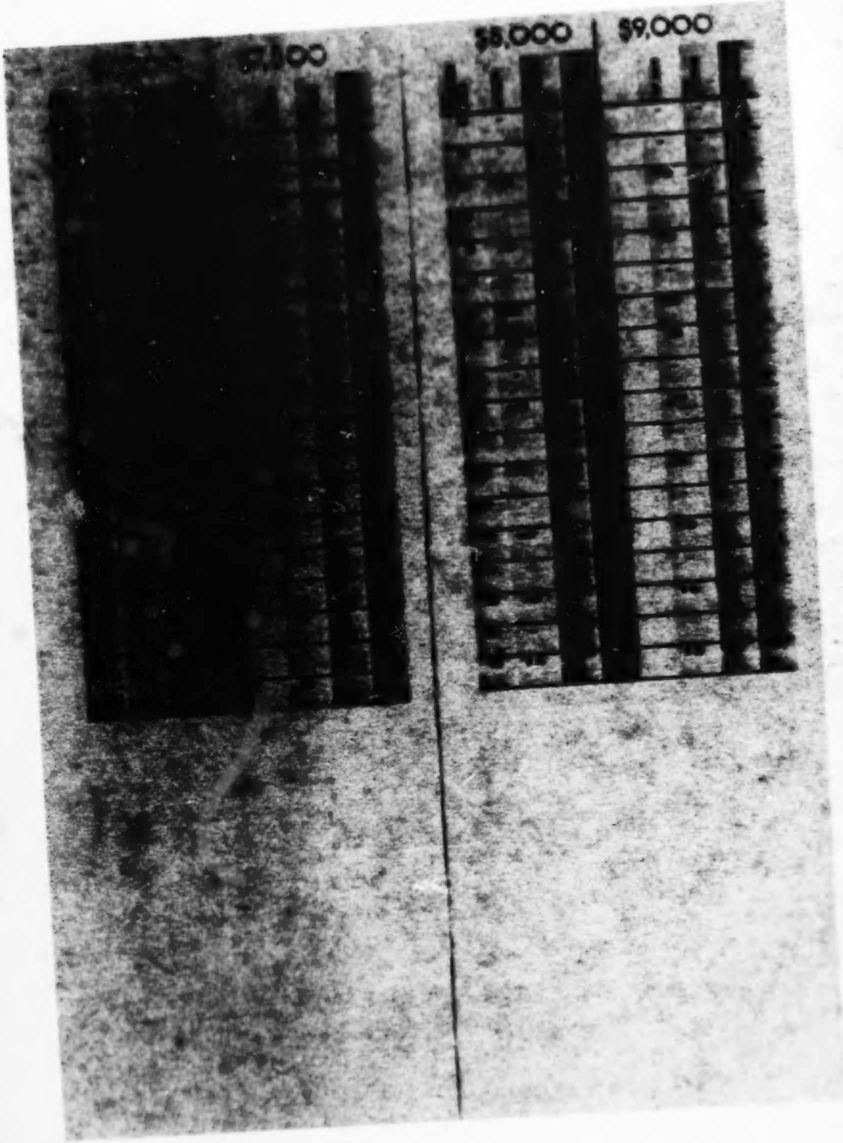

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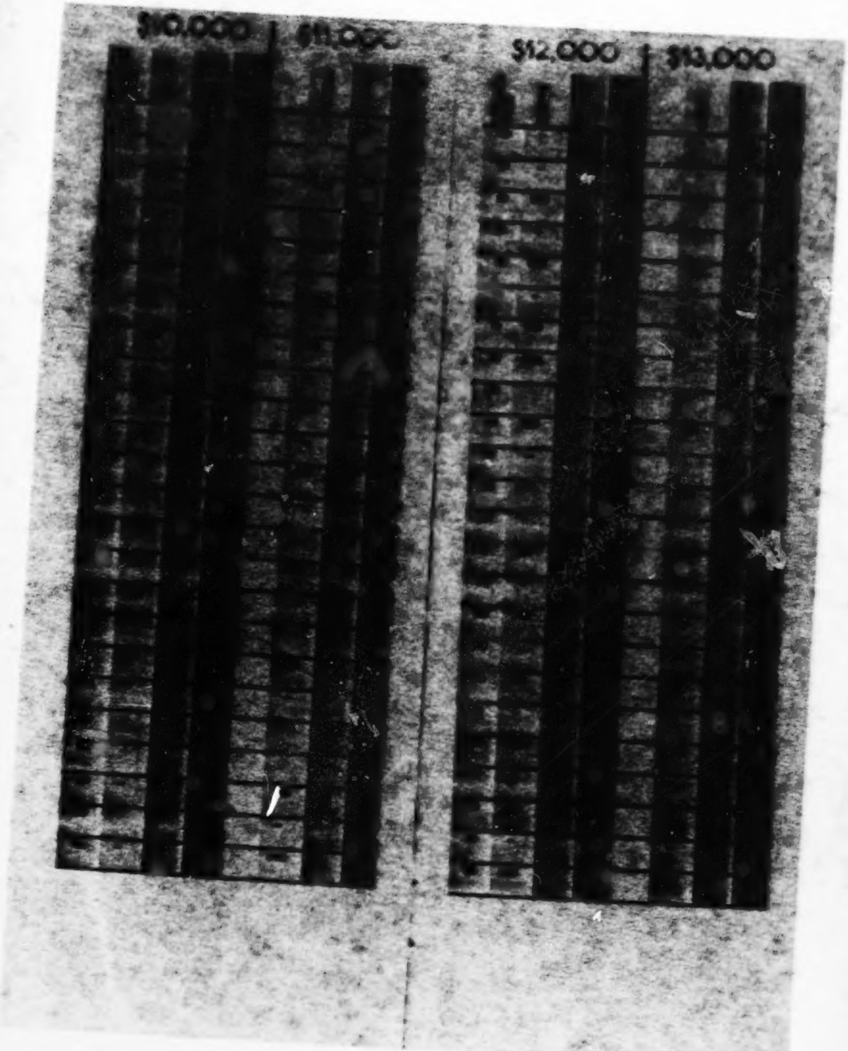
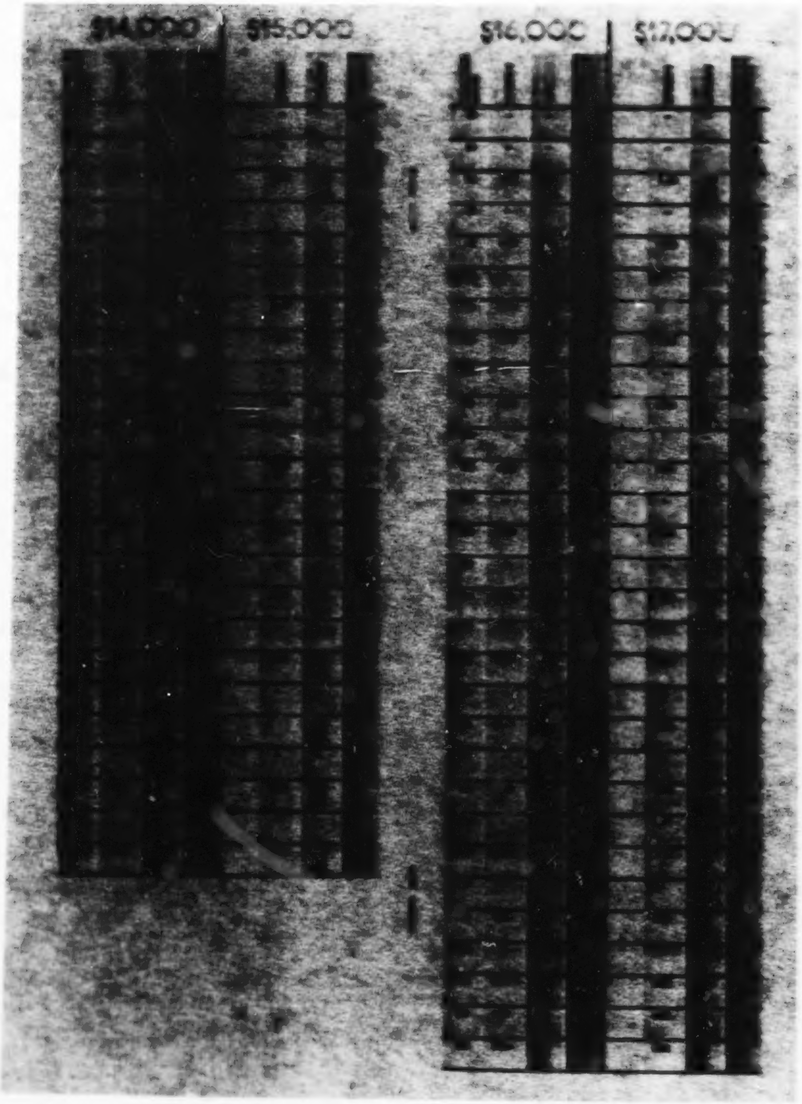
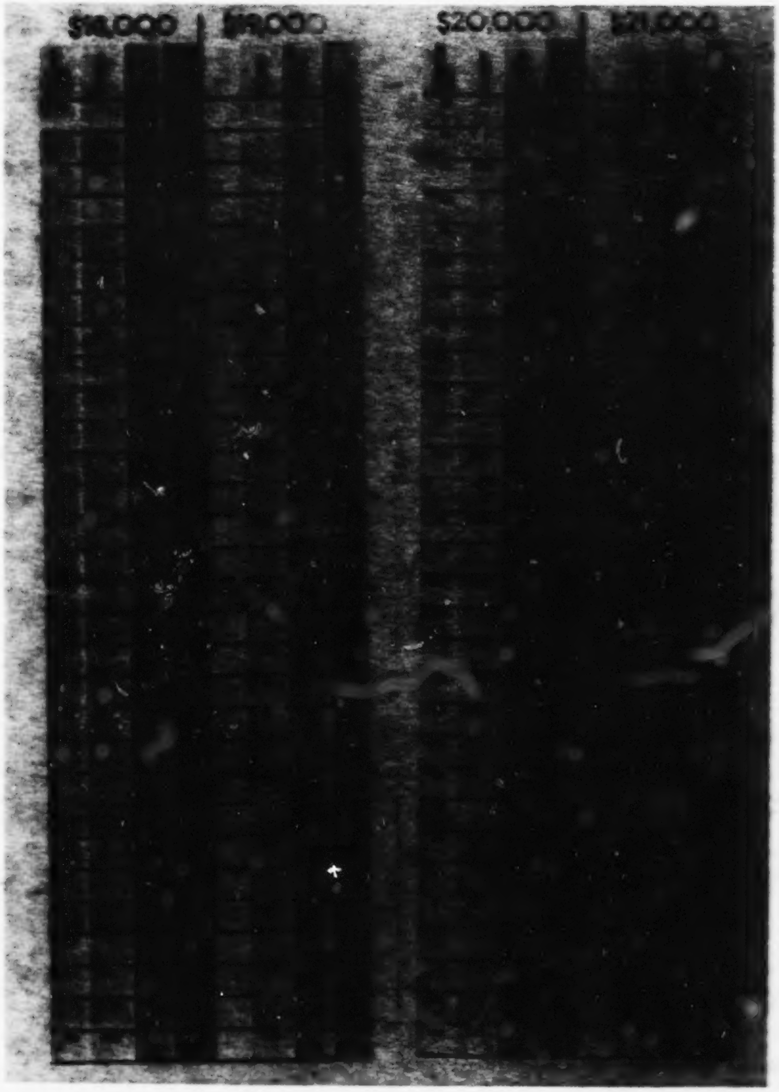

$10,000
$11,000
$12,000
$13,000


$14,000
$15,000
$16,000
$17,000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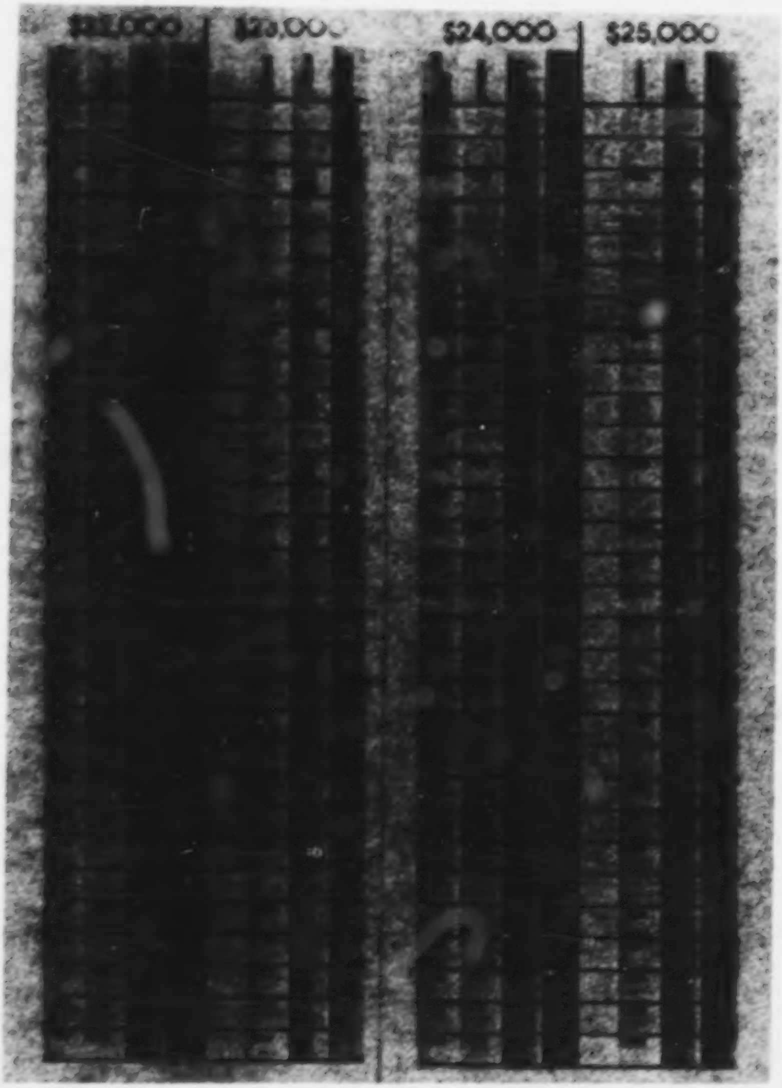
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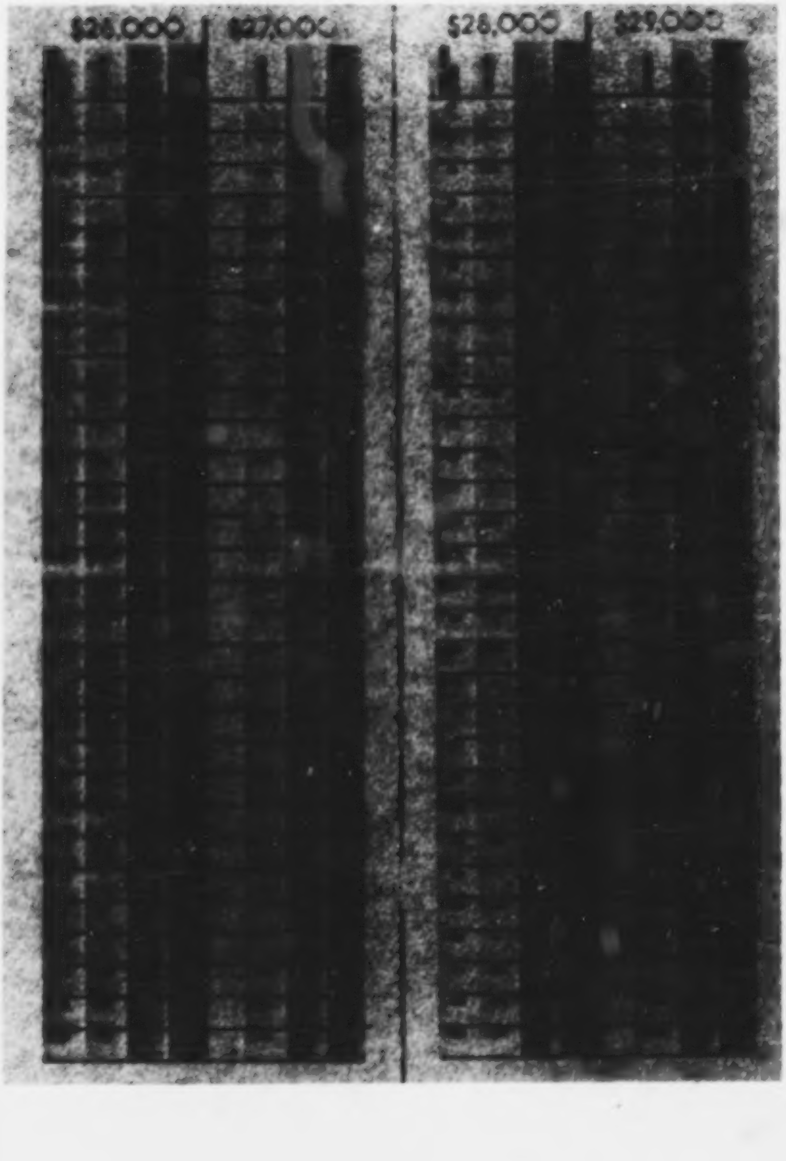
$26,000
$27,000
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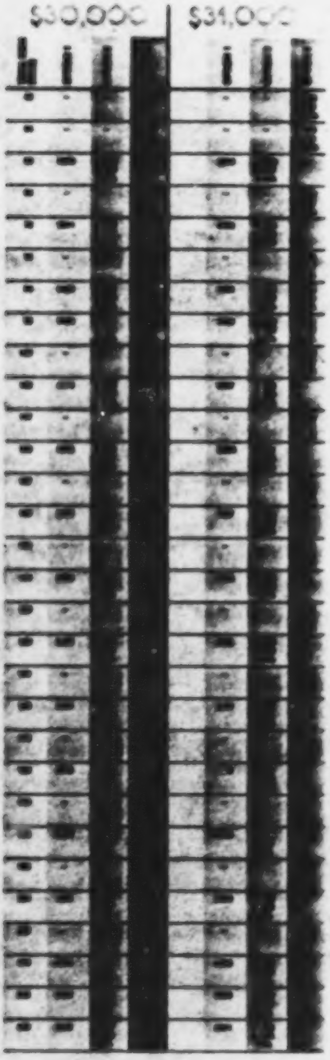
$29,000


$30,000
$31,000

OPTIONS

YOUR BENEFITS COMPARISON

The chart below compares the major benefits you may now have with the benefits you will have [illegible] your repayment loans under Sallie Mae's OPTIONS program.

BENEFIT	NDSL	GSL	OPTIONS
Prepayment allowed	YES	YES	YES
Maximum repayment term	10 Years	10 years	20 years ①
Interest rate	3%, 4% or 5%	7% or 9%	7% or 9% ②
Cancellation upon borrower death or total disability	YES	YES	YES
Deferment of principal payments for periods when the borrower is:			
• In attendance full-time at an approved educational institution ③	YES	YES	YES
• Serving in the Armed Forces, Public Health Service, Peace Corps, VISTA or as a full-time volunteer for certain tax exempt organizations	YES up to 3 years	YES up to 3 years	YES up to 3 years
• Serving an internship which is required to receive professional recognition and begin professional practice	YES up to 2 years	YES up to 2 years	YES up to 2 years
• Temporarily totally disabled or unable to secure employment by reason of the care required by a spouse who is so disabled	YES up to 3 years	YES up to 3 years	YES up to 2 years
• Seeking but unable to obtain employment	NO	YES up to 12 mos.	YES up to 12 mos.
Six month grace period after deferment	YES	YES ④	NO
Responsibility for interest during deferment periods listed above and applicable grace periods	No interest accrues during these periods.	Borrower pays, unless the interest on the loan was paid by the Government while the borrower was attending school ⑤	Borrower pays ⑤
Partial or full cancellation, over time, of loan for Public Service as:			
• A full-time teacher in certain public or other nonprofit private elementary or secondary schools	YES	NO	NO
• A full-time staff member in certain preschool programs	YES	NO	NO
• A full-time teacher of handicapped children in a public or other nonprofit private elementary or secondary school	YES	NO	NO
• A member of the Armed Forces of the United States for services in an area that qualifies as an area of hostilities	YES	NO	NO

① Actual maximum term is based upon total loan balance.

② If interest rate on GSL loans being consolidated is 7%, the OPTIONS loan will be at 7%.

③ Attendance may be on a half time basis but must be at an institution of higher education.

④ But only for loans made before October 1, 1981.

⑤ But required interest payments may be deferred and added to the principal amount of the loan.

Mr. Ford. Thank you very much.

Jean.

Ms. Frohlicher. Mr. Chairman and members of the subcommittee, I'm Jean Frohlicher. I'm staff director of the National Council of Higher Education Loan Programs, an organization which is comprised primarily of the State guaranty agencies, State direct lenders, and State secondary markets. We also have as members of the council a wide range of other participants in the Guaranteed Loan Program from major lenders to collectors and servicers.

I think, as Mr. Hayes commented, that we have a peanut gallery today. This hearing could not be more opportune as far as we're concerned, because the organization is in town for its annual spring convention, and I think we're very grateful to the subcommittee for kicking off the Washington series of hearings, which is, of course, the most important piece of our agenda for the upcoming years, as it is of yours, of reauthorization of the Guaranteed Student Loan Program. So, if we overwhelm you with numbers, take it as an indication of our deep interest in the program.

We have, as I'm sure you are aware, agencies in every single State now as a result of the Congress decision in 1976 that this was a better program to decentralize than to run centrally, and I think we have shown a very substantial success rate in running it at the State level.

You have in the materials that the subcommittee staff gave you an introduction to the Guaranteed Student Loan Program, which is a very basic document explaining the program, but in there is a very fascinating chart which shows that our cumulative net default rate for fiscal year 1984 was 4.4 percent, and that has dropped four-tenths of a percent since fiscal year 1983 and is substantially down. Five years ago, it was 5.9. States are making a very serious effort to reduce defaults. I think 4.4 percent is a rate that everybody can be proud of.

We also have 21 States and the District of Columbia that have direct lending agencies, where their commercial lending activity might not be as active as they would like or where they have the Lender of Last Resort Program for students who cannot get loans through commercial lenders. We have 21 States and D.C. running a direct lending operation to make sure that there is total access to the program.

Thirty States and the District have also established secondary market operations to complement and supplement Sallie Mae's activities in purchasing loans from lenders, making sure that there is adequate liquidity, that lenders will continue to make loans to students.

I, too, have been asked to discuss consolidation, and you can be assured of our wholehearted support for the concept of consolidation. We recognize that the average loan that was taken out by a student between 1966 and 1974 was a little over $1,000. Last year, it was $2,326, which is very close to the statutory ceiling for an undergraduate loan.

When you add this up, you get $15,000, $20,000, $30,000, in some cases $150,000 worth of debt.

Yet, while the student debt has increased that substantially, the period that the student has to pay the loan back has never increased above 10 years. So in a lot of cases you may be talking about a debt that, to the student, may be only second to his house purchase, and yet the law allows only a 10-year period for repayment.

Therefore, there is a strong need for some kind of consolidation and extension of term.

The council position is basically open on the format that the consolidation should take—eligibility criteria or repayment terms. We would be very happy to work with the committee and with the other interested groups in working out something like this.

We have two basic interests in the thing. One is that States be allowed to guarantee the loans—the consolidated loans as well as the initial loans.

Under the Options Program, all of the options loans were federally insured, as the statute required, and the bill that passed the Congress last year but has not become law recognized that States do have a legitimate interest in guaranteeing these loans and should be allowed to, if they are interested in doing it.

The FISL Program, mercifully, is almost dead. The council does not recommend its extension; neither does the administration. They have basically terminated it administratively. No new Federal loans are being insured, and so we would encourage the committee to make sure that States are cut into the guaranty process in whatever bill you come out with, to make sure that the State guaranty is maintained in every place it's possible.

The second issue—and this was the issue that became very active last time around on the consolidation question and was subject to a good deal of concern in the House—is the question of who should consolidate.

As I'm sure a number of the committee members remember, the committee initially reported a bill which would have allowed States to serve as consolidators, and this met a good deal of objection from the Office of Management and Budget and ultimately was dropped.

We didn't believe that the Office of Management and Budget's arguments held water in the beginning, because they were very concerned about absolute irresponsible overissuance of tax-exempt bonds in order to finance the consolidations, and they had absolutely no basis on which to be concerned about that, but that was the concern expressed, and that was the concern that the House reacted to.

We believe now that the problem has been obviated because the Deficit Reduction Act of 1984 explicitly provides that student loan revenue bonds, like industrial development bonds, are under the $200-per-capita cap in each State, and so for any State to issue tax exempt student loan revenue bonds now, the State must have included those tax-exempt bonds within the cap allowed to it under the Deficit Reduction Act.

So there is no possibility any more that extensive amounts of tax-exempt securities could be issued in order to fund the consolidation or to support the consolidation. We feel that argument has now been met through the Tax Code and it should not be a problem to face this subcommittee again.

I think I'd just add one more thing, which is much more set out in my testimony. I think when we talk about consolidation, we're really talking about two things. One, we're talking about the student who has borrowed from several lenders and really is concerned about multiple paybacks and multiple payment books from three or four different lenders.

That student is always going to need consolidation to get him down to one payment and one lender that he owes his obligation to. He may or may not need more than 10 years to pay that back. He may only have a $2,000 or $3,000 debt, but he may have borrowed at two or three places.

On the other hand, someone who has borrowed a substantial amount of money from one lender doesn't face the multiple payment problem. The lender cannot make a new note, but he can do everything but technically consolidate it so that he gives a student one monthly payment. He cannot extend the term more than 10 years.

In the policy paper that we will be giving the committee and in the materials we gave Mr. Ford and Mr. Coleman—hopefully, following the instruction to the letter—on NCHELP proposals for reauthorization, we made a proposal which we think also has a good deal of responsiveness to the pressures we understand the program is under from the budget side and the absolute concern that expenditures are uncontrollable.

I think you will be hearing a lot of testimony in subsequent hearings about initiation of need analysis into the Guaranteed Student Loan Program as a way to cut the costs of the program.

NCHELP has rejected that concept on the grounds that we feel that it makes no sense at all to deny access to students up front, and that by imposing needs analysis on students from under $30,000 family incomes right now, the only thing you can do is cut students out of the program.

We would recommend instead that you change the level of subsidy on the repayment end, when the student is no longer a student, the student is a borrower, and the student is employed, and the student is making money.

It seems to make very little sense to us to cut students out in the beginning and then to continue to subsidize someone 10, or in some cases the proposals talk about 15 or 20, years after he has graduated from school, based on how much his father earned when he was 16 or 18.

So our proposal, which is in the materials we have already submitted to the committee, is that, at the time the student entered repayment—this would be new borrowers only—his interest rate on repayment would be market rate, which we would define as the statute defines it, 91-day T-bill plus 3.5, a 12-percent cap to prevent against catastrophic interest situations, and a 10-year repayment.

Now, if he and his lender wanted to go up to 25 years, that would be permissible. The cap would go off after 10 years. Any kind of Federal subsidy in high-interest situations would cease. He would take his risks in the marketplace from years 11 through 25.

But that individual who has borrowed from one bank could, in that way, get up to 25 years to pay, without additional cost to the Federal budget from extending the term.

We feel that this is an important thing to inject into the question of consolidation—that the committee think of the two aspects of it: one, the multiple borrower; and, two, the question of extension of term.

When you start talking about extension of term, you have to look at the amount of subsidy that you provide for that extension of term and how much that additional cost adds to the program and whether those are the individuals you want to subsidize.

Our position would be, subsidize students into school and get them through school if there is limited money. We're not still ready to admit that there's limited money.

I'd be happy to answer any questions.

[The prepared statement of Jean S. Frohlicher follows:]

PREPARED STATEMENT OF JEAN S. FROHLICHER, STAFF DIRECTOR, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, INC.

Mr. Chairman and Members of the Subcommittee: My name is Jean Frohlicher, and I am Staff Director of the National Council of Higher Education Loan Programs, Inc. (NCHELP).

The Council is an organization comprised primarily of the State guaranty agencies, State direct lenders, and State secondary markets which are involved in the conduct of the Guaranteed Student Loan Program. Nonvoting Council members also include GSL lenders, servicers, collectors, and other agencies and organizations committed to the provision of Guaranteed Student Loans to all eligible borrowers.

On behalf of the Council, I would like to express our appreciation to the Chairman and the Subcommittee for beginning your Washington, D.C., hearings on reauthorization of the Higher Education Act of 1965 with the subject of Guaranteed Student Loans. As you may know, the Council is currently conducting its Spring Convention in Washington, D.C., in conjunction with the National Association of State Scholarship and Grant Programs; and this hearing on the number one issue of concern to NCHELP members—reauthorization—is serving as part of our conference program.

In response to the 1976 Congressional decision to encourage State involvement in the administration of the Guaranteed Student Loan Program, all 50 States, the District of Columbia, Puerto Rico, and the outlying areas have now established or designated State guaranty agencies. Loans guaranteed by these agencies are currently showing a cumulative net default rate of only 4.4 percent, down from 4.8 percent in fiscal year 1983 and substantially below the 5.9% rate States experienced only five years ago. Obviously, States are taking their responsibility to curb defaults extremely seriously.

In fact, nationwide student access to State-guaranteed loans caused the U.S. Department of Education to terminate the Federally Insured Student Loan Program administratively last year.

In addition to State guaranty agencies, 21 States and the District of Columbia have direct lending agencies, to augment the participation of commercial lenders and to provide lender-of-last resort services to students otherwise unable to borrow under the GSL Program. Thirty States and the District of Columbia have also established secondary markets to supplement the activities of the Student Loan Marketing Association (SLMA) in assuring the availability of capital for student loans.

I have been asked today to address the subject of loan consolidation. Consolidation is a concept which has been strongly endorsed by the Board of Directors of NCHELP. We believe that it is a necessary tool in the arsenal of default reduction: if students are overburdened with debt that they are unable to pay within the time allotted by statute, they will be more likely to default.

During the period 1966–1974, the average loan taken out by a student in an academic year was $1,024. The ceiling on annual undergraduate borrowing was increased from $1,500 to $2,500 in 1972. Since that time, the annual average loan has steadily increased, until it reached $2,326 in fiscal year 1984, the fiscal year just ended.

Yet, since the earliest days of the Guaranteed Student Loan Program, a student has been allowed only ten years to repay the entire amount borrowed. Repayment terms have not kept pace with the significant increases in the amount of student debt.

The National Council of Higher Education Loan Programs, Inc. does not have a specific proposal concerning the form a consolidation program should take. We would be happy to work with the Subcommittee in developing appropriate eligibility standards and consolidation terms.

However, the Council believes strongly that States should be an integral part of any consolidation proposal the Subcommittee develops. State agencies have proved that they can run low-default loan programs, due in large part to their proximity to borrowers, schools, and lenders. State secondary markets have been a significant force in assuring that lenders have sufficient liquidity to maintain their commitment to the Guaranteed Loan Program.

NCHELP supports State involvement in consolidation in two areas. The first would include State guaranty agencies which wished to participate as eligible guarantors for consolidated loans. This provision was included in H.R. 4350, which passed the House of Representatives during the 98th Congress. We would urge that similar authority or State guarantees of consolidated loans be included in any future legislation. The Federally Insured Student Loan Program is moribund at the present time, and both NCHELP and the Administration have proposed its expiration at the end of its current authorization.

While we recognize that in certain cases, the Secretary may be the only approprite guarantor for a consolidated loan, FISL, with all its problems, should be resurrected on an extremely limited basis, and should not be the only guarantee available for consolidated loans. State agencies should be allowed the first option on guaranteeing any consolidated loans the Congress may authorize.

Second, State secondary markets and direct lenders should be authorized to consolidate loans for student borrowers. Many borrowers wish to consolidate their loans in their home States, and they should be allowed to do so. State secondary markets and direct lenders hold substantial numbers of student loans, and possess the necessary technical expertise to accomplish the consolidation with a minimum of paperwork and red tape.

In the past, other parties interested in consolidation have not opposed the participation of State agencies in the process. President Fox of SLMA testified before this Subcommittee last year that SLMA did not seek a monopoly on the ability to consolidate. Similarly, lenders seeking to be a part of the consolidation process have not objected to competition from State secondary markets and direct lenders.

The only vocal oposition to State participation has come from the Office of Management and Budget, which has alleged that State participation could lead to irresponsible issuance of tax-exempt bonds to finance such consolidations, resulting in a drain on potential revenues to the Treasury.

NCHELP believed that this concern was overstated at the time it was made. Furthermore, we do not see that that argument against State participation has any validity today. The Deficit Reduction Act of 1984 limits issuance of student loan revenue bonds and industrial development bonds by, imposing a cap of $200 per capita on the total issued within any State. As a result, State secondary markets and direct lenders are constrained in their issuance of tax-exempt bonds by their State's allocation of its cap amount among competing interests, such as economic development and pollution control. In order to continue their loan purchase programs, State secondary markets are increasingly exploring taxable alternative sources of funding, such as SLMA.

As a result of last year's tax bill, tax-exempt issuance of student loan revenue bonds has been effectively contained. We see no reason that State secondary markets and direct lenders should not be authorized to participate in consolidation activities. NCHELP strongly urges their inclusion in any program the Subcommittee may draft.

In any discussion of consolidation of loans, we are really talking about two things—(1) consolidation into a single repayment of several loan obligations incurred by a student, and (2) extension of the time a borrower has to repay the aggregate balance.

If a student has borrowed several loans from a single lender, but is able to repay his total obligation within the 10-year period allowed, he doesn't technically need a consolidated loan. The lender can, and often does, aggregate the individual notes into a single repayment obligation. The student is thus spared making small payments on several notes. However, in a legal sense, his loans haven't been "consolidated", since a new note for the aggregate amount owed has not been drawn to replace the multiple notes representing his individual loans.

A student who has borrowed from more than one lender cannot achieve a single repayment amount under current law, without extraordinary cooperation among lenders. For this borrower, a program of consolidation is necessary, if only to establish a single monthly repayment amount on a single note representing his total indebtedness.

However, either borrower may not need an extension of his 10-year limit on his repayment term. His problem may be only multiplicity of loans, not total debt burden.

Other borrowers, however, need more than the 10 years permitted by statute to pay off their debt. In some cases, Gauranteed Loans may represent the second-largest obligation a borrower may undertake in his lifetime, second only to the purchase of a home. When one is speaking in terms of $15,000 or $20,000 or $25,000 in total debt, 10 years is demonstrably too short a period to pay off the amount owed.

However, extension of loan repayment periods can, under current law, be significantly costly to the Federal Treasury. Each borrower owes interest at the rate of 7 percent, 8 percent, or 9 percent, depending on when he took out his first Guaranteed Student Loan. The Federal government pays any additional amount betwen the rate charged the borrower and the rate of T-Bill plus 3.5 for the life of the repayment period. Extending the repayment period extends the Federal subsidy, and increases attendant Federal cost.

The National Council of Higher Education Loan Programs has made recommendations to this Subcommittee which would allow for extension of the repayment period to up to 25 years, without additional cost to the Federal government. In essence, NCHELP proposes that all subsidized GSL's made to new borrowers, after a specific date, convert to repayment at market rate (defined as the 91-day Treasury bill rate plus 3.5 percent), variable quarterly. A maximum rate of 12 percent would be set, to protect the borrower against catastrophic increases in interest rates. Only if the 12 percent cap rate were exceeded would the Federal government be liable for payment of special allowances to lenders.

The 10-year maximum payment period rule would be modified by permitting the lender and borrower to agree to a repayment period extending beyond 10 years, but not to exceed 25 years, subject to adjusting the loan to market rates (T-bill plus 3.5 percent), without a cap, for repayment periods extending beyond the 10th year. Thus, a borrower could take up to 25 years to repay his total loan obligation, but the Federal responsibility to pay special allowances would cease after 10 years. The only Federal exposure for the remainder of the repayment period would be the Federal reinsurance obligation, payable upon default, death, or disability. This cost could be expected to be minimal, since borrowers making regular repayments for 10-year period are extremely unlikely to default on their obligations later into the repayment period.

This proposal would substantially reduce the Federal cost of the Guaranteed Student Loan Program, without limiting student access to loans. Cost-cutting proposals to impose needs tests for Guaranteed Loans would deny many students access to loan capital they desperately seek to continue their educations.

NCHELP believes that, if costs must be contained in the Guaranteed Student Loan Program, it makes more sense to charge borrowers who have completed or left school an interest rate more closely related to the actual cost of funds than to deny them a loan in the first place. Advocates of need analysis in the GSL Program take the opposite position. They would deny access to thousands of students who cannot demonstrate "need" under traditional needs analysis methods, then subsidize borrowers through their repayment period, based on their parents' income prior to their entering school. This simply does not make sense.

In brief, NCHELP proposes that all students from families with less than $30,000 effective income would be eligible to borrow. Upon completing school, the borrower would pay market rates, with a 12 percent cap, for the regular 10-year period, and would have the option of extending his repayment period to up to 25 years, at market rates. The Federal government would subsidize the in-school and grace periods, and would underwrite the costs over 12 percent in terms of exceedingly high interest rates.

Adoption of the NCHELP proposal by the Subcommittee would obviate the need for a new consolidation program when the only purpose is to stretch out a borrower's repayments, to avoid default due to a debt burden he is unable to repay in 10 years. Consolidation would still be needed in cases of student borrowers from multiple lenders. And a consolidation program will be needed for all borrowers under the provisions of the current law.

NCHELP supports the idea and the substance of consolidation. We urge the Subcommittee to include States in any consolidation program, both as guarantors and as makers of consolidated loans. We would be happy to work with the Subcommittee and its staff in crafting a consolidation program which will benefit borrowers.

I appreciate the opportunity to appear before the Subcommittee, and I would be happy to answer any questions you may have.

Position Paper on the Reauthorization of the Guaranteed Student Loan Program and Other Title IV Programs—Revised April 11, 1985

INTRODUCTION

This NCHELP position paper proposes to make 26 specific recommendations around three major themes:

1. Reaffirmation of the fundamental soundness and effectiveness of the GSL Program.
2. Simplification and stabilization of the GSL program.
3. Realistic distribution of cost for the GSL program.

In reaffirming the soundness and effectiveness of the GSL Program it is important to emphasize that the GSL Program is the major source of financing postsecondary education today. It should also be pointed out that Congress has made thoughtful decisions in order to make the GSL Program operate as a viable credit mechanism, depending primarily on private loan capital, and to promote effective decentralized, state-based program administration. Our position on reauthorization reaffirms the need for stability and Congressional commitment to protect lender incentives to participate and to maintain a high level of access to all eligible students in every state.

THE FUNDAMENTAL SOUNDNESS AND EFFECTIVENESS OF THE GSL PROGRAM

Since its beginning in 1965, the GSL Program has provided over $50 billion dollars in loans to students pursuing post-secondary education. During this same period, the Program has evolved into a decentralized state-based mode of administration which has contributed much to the overall success of the Program. This success can be measured in terms of broader, more active lender participation, greater access to student loans, more viable secondary market activity, and lower default rates in state guarantee agency operations than occurred under the centrally-administered FISL Program.

In the coming months Congress will consider the reauthorization of all federal student assistance programs. Serious questions will be raised concerning the future role of the federal government to meet the nation's needs for trained manpower, to provide economic stability, to control inflation, to encourage excellence in our educational system, and to meet the ever-changing demands of a rapidly developing technological society. Congress will re-examine its long-standing commitment to provide equal educational opportunities to the American people and hopefully move forward to renew that commitment and to expand its support for all Title IV student assistance programs.

In the belief that the GSL Program is a cornerstone in the nation's effort to remove financial barriers to postsecondary education and that, overall, the GSL Program is fundamentally a sound and effective means of removing financial barriers, three major recommendations are offered:

1. Recognizing a need for a proper balance between grant funds and loan funds for needy students, substantial increases should be made to the federal grant programs to insure that needy students are not overly reliant on loans to meet their educational costs, particularly in the lower division undergraduate student population. GSL default experience will definitely be affected by the funding balances achieved for grants and loans to needy students in the years ahead.
2. The GSL Program should be maintained and enhanced to:

(a) assure the proper funding balance between available loan and grant funds to needy students as described in Recommendation No. 1.

(b) protect the true entitlement concept of the Program.

(c) encourage private lender participation in the Program by maintaining the current special allowance rates.

(d) insure the continued state or private, nonprofit responsibility for administration of the Program, and

(e) maintain a stable environment in which to provide an adequate supply of loan capital.

3. Provide total access to student loan capital to meet determined eligible educational costs to all eligible borrowers in every state by:

(a) requiring a state-approved mechanism to provide a public or private lender-of last-resort program to be made available in that state to assure access to subsidized loans.

(b) increasing the annual and aggregate loan limits according to the following schedule: as of the effective date of the legislation, the annual limits shall be $4,000 for undergraduate students and $8,000 for graduate students; the aggregate limits shall be $20,000 for undergraduates and $40,000 for graduate students. Congress should periodically review these limits.

THE NEED FOR GSL PROGRAM SIMPLIFICATION AND STABILITY

Since 1958, the number of federal student aid programs has multiplied and evolved into a very complex, difficult to administer, highly overregulated matrix we call the "student aid delivery system". At almost every legislative opportunity, attempts to simplify these programs have been debated, discussed, and ultimately discarded with few positive results. This continued proliferation, as well as the complexity of student aid programs, has made total access for students and the removal of financial barriers more difficult with the passage of time and regulations. If Congress and the higher education communities are serious about moving forward to fulfill our national commitment to provide equal educational opportunity for all eligible students, then meaningful steps must be taken now to simplify student aid programs. No less important is the need to reauthorize the programs within a framework that provides consistency and stability, assuring eligible students and their families that student aid funds will be available in the years ahead. In this context the following recommendations are made:

4. Incorporate all federal Title IV student loan programs into the GSL Program (NDSL and FISL). Since FISL is being terminated administratively by the Department of Education, it should be eliminated legislatively. For institutions participating in the NDSL Program, allow them to continue an institutional loan program (at the option of the institution), or, as eligible lenders under the GSL Program, to utilize NDSL funds in their need-based grant and/or a work-study program. This would provide additional assurances to the institutions of the continued availability of loan capital for students served by these programs and also provide a guarantee of the fund corpus which they do not now enjoy. The guarantee provided these loan funds would apply only to new borrowers after the effective date of this legislation.

5. Restructure the legislation authorizing the PLUS/ALAS Programs to clarify the goals of what really are two separate programs and simplify the administration of these programs in order to increase the supply of loans available to meet the needs of both parents and students as follows:

(a) The current section authorizing the Auxiliary Loans to Assist Students Program (Section 428-B) of the Higher Education Act should be replaced with two sections: one authorizing a supplemental, nonsubsidized loan program for students and a second authorizing Loans for Parents. This new Supplemental Student Loan Program would have the following features:

(1) The maximum interest rate would be market rate (defined as Treasury bill plus 3.5 percent), with a cap of 12 percent; special allowance payments would be made if interest rates rose above 12 percent.

(2) Students, at the option of the lender, wold be given a choice of paying the interest while they are in school or having the interest capitalized at the close of each calendar quarter.

(3) Dependent undergraduate students, as well as graduate students and independent undergraduate students, would be eligible for these loans.

(4) The annual loan limit would be $4,000 and the aggregate loan limit would be $20,000. These limits would be in addition to any amounts borrowed through the GSL Program, not to exceed the total cost of education minus other financial aid, not including parent contributions.

(5) The loans would have the same repayment terms and grace periods as regular GSL loans. Special allowances would be paid, if market rate rose above 12 percent. These loans should have the same consolidation provisions as regulr GSL loans. In summary, the nonsubsidized supplemental loans should have exactly the same terms and conditions as the regular Guaranteed Student Loans with two exceptions: the interest rate of T-bill plus 3.5 percent, capped at 12 percent, and the absence of the federal interest subsidy.

(6) Notwithstanding the annual loan limits of this new Suppleental Nonsubsidized Loan Program, any students who have received loans in the past under Section 428-B should be able to refinance those loans under the new program.

(b) The new Loans for Parents Program would have the following features:

(1) The maximum interest rate would be market rate (defined as Treasury bill plus 3.5 percent), with a cap of 12 percent, and special allowances would be paid if interest rates rose above 12 percent.

(2) Parents would be able to borrow $4,000 per year for a student, limited to the total cost of education minus other financial aid, not including parent contribution. The student could be a graduate or undergraduate student. The aggregate borrowing limit would be $20,000 per student. These amounts would be in addition to any amounts borrowed by students.

(3) Other than deferments for unemployment, temporary disability and rehabilitation, and in-school status, parent borrowers would not be eligible for any of the deferments available to student loan borrowers.

(4) When a parent borrows for a dependent child, the parent should be able to refinance any previous loans taken for that child and consolidate those loans with the new loan. This would include any loans previously taken out under the PLUS Program as previously authorized under Section 428-B. This consolidation opportunity should include old loans, including 14 percent loans, which would be refinanced at the (capped) market rate.

(5) The maximum repayment period on parent loans would be ten years from the time a loan is taken out or refinanced.

(6) All other terms and conditions of the new parent loan program would be the same as the program currently in law.

6. Determine the eligibility of a student to receive a subsidized GL by the method described below:

For students with an AGI (adjusted gross income) of over $30,000, the maximum loan amount would be equal to total cost of education less financial aid received less a "credit eligibility index" (CEI). The CEI would be established by law, either by means of a formula or benchmarks for a table. The CEI would be used in the same manner as the current GSL Contribution Tables. Separate indices would be established for dependent students from one and two parent families, and independent students who are married, single, or single heads-of-household. The CEI would be based on family size and the AGI in the tax year prior to the academic year in which the loan is made; however, campus aid administrators could exercise professionl judgment in amending the CEI in those cases where there have been exceptional changes in family circumstances.

Students with AGI's under $30,000 would not receive loans in excess of $2500 for undergraduates and $5000 for graduate students unless their eligibility is determined using the CEI. Any student eligible for less than $500 but more than $1 would receive $500. The amount of the loan in combination with other aid could not exceed the total cost of education.

7. Changes specific to the administration of the GSL Program which would simplify and/or stabilize it include:

(a) The maximum repayment rule of 15 years should be eliminated.

(b) Half-time students should be allowed an in-school deferment.

(c) Standards for foreign school participation in the GSL Program should be established in statute.

(d) The initial grace period after the student's in-school period should be returned to a 9 month period. Borrowers with one or more loans eligible for a 6 month post-deferment grace period should receive the post-deferment grace on all their loans.

(e) Agencies should be permitted to retain a flat 30 percent of collections on accounts in default.

(f) The statute should provide that subrogation would not apply to an agency that, in any fiscal year, collects an amount equal to or greater than 4 percent of the total balance of loans in default at the close of the previous fiscal year.

8. Repeal section 438(d)(1)(G) of the Higher Education Act of 1965 and empower state-level secondary markets and/or direct lenders to generate student loan capital by use of public purpose, tax-exempt bonds in order to maintain an adequate and stable supply of loan capital, under the provisions of the Deficit Reduction Act of 1984.

REALISTIC DISTRIBUTION OF COST OF THE GSL PROGRAM

In recent years with the dramatic increases in GSL volume nationwide and the unpredictably high interest rates at certain periods, there has been growing concern over the questions of controlling the costs of the GSL Program and who should share in those costs. Recognizing the need to structure the GSL Program in such a way as to distribute the costs in a reasonable manner to all parties involved (lenders, students, state guarantee agencies, and the federal government), one must approach the distribution of costs in a realistic manner which maintains as much equity as possible without threatening the viable role of any one of the parties. It should be recognized first and foremost that the major burden of cost must be borne by the federal government for the Program to work effectively in all states and to maintain total loan access to all eligible borrowers. No less important, it should also be recognized that the major cost-contributing factor, interest rates, must be controlled by the nation's overall economic and monetary policies and not by manipulation of the fundamental aspects of the GSL Program.

In meeting the challenge of providing a viable credit mechanism to remove financial barriers to postsecondary education in the years ahead, great care must be taken in the reasonable distribution of the cost of the GSL Program to inhibit the Program's ability to:

(a) provide total loan access to all eligible students,

(b) maintain adequate and continued private lender participation,

(c) promote a stable environment for maintaining an adequate supply of loan capital year after year, and

(d) control student defaults at reasonable levels.

With these guiding principles in mind, the following recommendations are offered:

9. Eliminate the 5 percent loan origination fee.

10. Convert all subsidized GSL's to new borrowers to repayment at the same rate of interest as the unsubsidized programs (T-bill plus 3.5 percent), variable quarterly, subject to a maximum rate of 12 percent in any quarter, in which case special allowance payments by the Federal government would be payable. The 10-year maximum repayment period rule would be modified by permitting the lender and borrower to agree to a repayment period extending beyond 10 years, but not to exceed 25 years, subject to adjusting the loan to market rates (T-bill plus 3.5 percent), without a cap, for repayment periods extending beyond the 10th year.

11. Increase the minimum monthly payment to $75 for all new borrowers. It is unrealistic to recommend higher loan limits and longer repayment terms without corresponding increases to the actual minimum monthly repayment amounts.

12. Encourage and permit states to return all federal advances to the federal government within a reasonable time frame based on an independent determination of the overall financial condition of the agency's loan guarantee program. As state guarantee agencies become more firmly established financially, it is appropriate that some of the cost of the GSL Program be shared by them.

13. Limit the total fee charged to students (insurance premiums) to 3 percent of the loan amount. Guarantee agencies shall be authorized to charge a flat fee to all students.

14. Allow for loan consolidation by all eligible lenders and holders of loans in the GSL Program. In addition, guarantee agencies should have the ability to guarantee loans consolidated by eligible lenders within the state.

15. Apply Federal income tax refunds due to defaulted borrowers, at the request of the guarantor, to their defaulted loan indebtedness. Similar requirements have been successfully implemented at the state level in some states. It is not unreasonable for the federal government to use such leverage, given the ample opportunity a student has to repay the loan before such action would be taken.

16. Enact Federal legislation to override existing State and local laws which prevent guarantee agencies from garnisheeing GSL defaulter earnings to collect on defaulted loans.

17. In order to maintain a reasonable sharing of the cost of reinsurance between the federal government and state guarantee agencies, retain the current methodology for reinsurance.

18. For the administrative cost allowance (ACA), retain the existing ACA of up to 1 percent of loans guaranteed annually.

19. Establish a statute of limitations of at least six years on defaulted student loans in federal law. States with longer statutes would not be affected.

20. On all new loans, authorize guarantee agencies to raise the interest rate, in the event of default, up to the maximum rate permitted by State law.

21. Require multiple disbursement of GSL funds to students, to reduce defaults and to save money on dropouts, and eliminate the minimum volume requirements on lenders to qualify for such agreements.

22. Require lenders to make loan checks jointly payable to the educational institution and the student borrower (unless such borrower is attending a foreign institution); or require that student borrowers' checks be mailed to the institution.

23. Provide an incentive to existing borrowers to prepay their student loans ahead of schedule, through offering reduced interest or discount options.

24. Require guarantee agencies, lenders, or subsequent holders to submit the names, addresses, and Social Security numbers and loan amounts of GSL, PLUS, and unsubsidized loans to credit reporting bureaus at the time of disbursement.

25. Define the "Secretary's equitable share" as not to exceed the amount of reinsurance paid plus accrued interest on that amount, less the 30 percent amount retained by the guarantee agency.

26. Permit guarantee agencies to sell rehabilitated defaulted loans to eligible lenders, retaining 10 percent of the principal amount, with the reinstatement of the State guarantee, Federal reinsurance, and any special allowance payments to which the holder of the rehabilitated loan would be entitled. Such repurchased loans shall be subtracted from the numerator in any calculation of the agency's applicable reinsurance trigger rate, including defaulted loans repurchased within the same year.

Mr. **Ford**. Thank you.

Mr. Lawlor.

Mr. **Lawlor**. Mr. Chairman and members of the subcommittee, to follow my fellow Illinoisan's example, I'll keep it brief.

My name is Danny Lawlor. I have just recently completed my freshman year at Georgetown University School of Medicine. I just woke up after 4 days of sleep.

I appreciate the opportunity to appear before you to discuss this reauthorization of the Higher Education Act.

I appear here today with grave concerns about the adequacy of the student assistance programs if the Reagan administration's recommendations are accepted.

Health profession students desperately need title IV assistance, and I'm here today to support specifically the Guaranteed Student Loan Program and associated programs on which medical students are extremely dependent.

I oppose the stricter family income limits and tying the GSL and PLUS/ALAS interest rates of borrowers to T-bill rates. I urge, instead, that this committee push for needs-based criteria. This method of assigning moneys is surely the fairest and the most equitable of all.

The GSL Program represents the most widely used program of medical students in the country. The current $5,000 a year being offered by the program is essential to many of us to meet the financial expense of a medical education.

I personally have borrowed approximately $13,000 from the GSL, and, without the continued availability of it, I will have great difficulty in completing my studies.

I'm very grateful for the GSL Program, and it has greatly assisted me in obtaining my education.

I'd like to add, however, that annual and aggregate loan limits under the GSL Program have remained constant for several years while the costs of financing postsecondary education have continued to rise.

Modest increases in loan limits along with increases in grant and work programs would greatly assist needy students in assuring access to and a choice of their desired educational programs.

It's also important that loan consolidations with graduated repayment be permitted, as this will allow me to enter a primary care practice with the expectation of managing my debt repayment.

Nevertheless, my $100,000 debt will not be secondary to a house loan, it will prohibit any house loan. I'm going to be a renter for a long time to come.

I'm 30 years old. I am the oldest child of a family of eight children. After high school, I attended the University of Kentucky for a year, but I was forced to withdraw there because of financial considerations. I entered the workforce for the following 6 years.

My dad died from alcoholism in 1981. For the last 10 years of his life, he was severely incapacitated due to this crippling illness, and, for a long time, my family scraped by financially.

I moved home in 1979 to give a hand to my mother, offer emotional and meager financial support to my family.

In 1980, I enrolled in a junior college in Illinois. After 2½ years, I transferred to Georgetown and completed my undergraduate degree in 1984. I entered Georgetown Medical School last fall and have just completed my first year.

In part due to my father's condition and the expense of a secondary education, I am the only one of eight children who has completed a college education. I've been very fortunate.

My mother, now a widow, currently supports three children, two of whom are disabled. Her total gross income for 1984 was $20,000. I have not obtained any financial support from my family for the past 10 years.

My medical school expects me to come up with $4,000 in personal resources for next year. Clearly, I've had to rely heavily on the GSL and other loan programs like ALAS and HEAL. I will continue to borrow the maximum amount possible from GSL—$5,000 a year—until my aggregate is used up.

Although the administrations at medical schools—and Georgetown is certainly no exception—discourage us from working due to the 40-hour class schedule, I really have no choice but to seek employment.

Although I am 30 years old, I have chosen to live in the dormitory as a resident director in order to save money. May I please state, I have not purchased a stereo, any Florida vacations, or any automobiles.

I'm sure that my heavy expenses for a medical education are shared by the more than one-third of medical students who attend private medical schools in the country.

I'm very aware of the obligation which my indebtedness entails. I expect to repay all my loans. I have participated in the numerous debt management programs that Georgetown offers.

Mr. Chairman and members of the subcommittee, my story is not atypical. There are scores of students in this country with bleaker financial backgrounds than mine. I have talked to many peers, and they are serious about their chosen careers, and they are very serious about the resulting obligations.

I was not the only medical student working in a dormitory this year; I am not the only medical student using a bicycle as primary transportation; and I'm not the only student who would be harmed by cuts in student financial aid.

I have cut tobacco in Casey County, KY; since coming to Washington, I've been fortunate to have had the opportunity to work in the inner city at the Luther Place Shelter for Homeless Women and at the Zaccheus Medical Clinic, a free medical clinic—the only free medical clinic in D.C. offering assistance to people in our city who can't afford private care.

Those experiences have exposed the myth, in my eyes, that this country is creating a glut of physicians. The glut may exist in Potomac, MD; it does not exist on 14th Street.

I do not think I have to tell this committee that if the Reagan proposals are approved it will no doubt mean that the good people of Potomac will continue to receive the best of medical care. As for the citizens on 14th Street, I am considerably less optimistic.

It seems as if the President would eliminate avenues for all but the wealthiest of medical students to finance their education. Under his proposal, many minority and low-income students will never even consider trying to become a doctor. Only the availability of manageable financing mechanisms will prevent a decline in their numbers.

I implore you to support retention of funding and reasonable provisions for the programs named above. As a future physician, I care very much about the health care needs of this country. At this point in my life, I need the Government's assistance in obtaining my education.

Again, Mr. Chairman and members of the subcommittee, thanks for the opportunity to tell my story. I'll be glad to receive any questions you might have.

[The prepared statement of Dan Lawlor follows:]

PREPARED STATEMENT OF DAN LAWLOR

Mr. Chairman, Members of the Subcommittee: My name is Dan Lawlor and I have just completed my freshman year at Georgetown University School of Medicine. I appreciate the opportunity to appear before you to discuss the reauthorization of the Higher Education Act.

I appear here today with grave concerns about the adequacy of student assistance programs if the Reagan Administration's recommendations are accepted. The 98th Congress reauthorized the Public Health Service Act's Title VII health professions training assistance programs, including Health Professions Student Loans, Exceptional Financial Need Scholarships, National Health Service Corps Scholarships and Health Education Assistance Loans (HEAL). President Reagan vetoed this legislation and now with his FY '86 budget proposes no funds for the first three of the above litany of programs. Attempts are being made to phase-out the last program, the HEAL loan program, a program for which the Federal government provides no outlays.

Health professions students desperately need Title IV assistance, and I am here today to support specifically the Guaranteed Student Loan program and associated programs on which medical students are extremely dependent. I oppose the stricter family income limits and tying the GSL and PLUS/ALAS interest rates of borrowers to T-Bill rates. I urge, instead, that this committee push for "needs-based" criteria. This method of assigning monies is surely the fairest and most equitable for all.

The GSL program represents the most widely used program of medical students in the country. According to the American Association of Medical Colleges (AAMC), 60 percent of all medical students borrow from this program and GSL provides approximately 40 percent of dollars received by all sources of financial aid, including military scholarships. The current $5,000 a year borrowing offered by this program is essential for many of us to meet the financial expense of a medical education.

I personally have borrowed approximately $13,000 from this program and without the continued availability of GSL, I will have great difficulty completing my studies. I am very grateful to the GSL program as it as greatly assisted me in obtaining my education.

I would like to add, however, that annual and aggregate loan limits under the GSL program have remained constant for several years while costs of financing post-secondary education have continued to rise. Modest increases in loan limits along with increases in grant and work programs would greatly assist needy students in assuring access to and a choice of their desired educational programs. It is also important that loan consolidations with granduated repayment be permitted as this will allow me to enter a primary care practice with the expectation of managing my debt repayment.

I am 30 years old. I am the oldest child of a family of eight children. After high school, I attended the University of Kentucky for one year but was forced to withdraw because of financial considerations. I entered the work force for the following six years. My father died from alcholism in 1981. For the last ten years of his life he was severely incapacitated due to this crippling illness, and for a long period my family scraped by financially. I moved home in 1979 to give a hand to my mother and to offer emotional and meager financial support to my family. In 1980, I enrolled at a junior college in Illinois. After two and one half years I transferred to Georgetown University and completed my undergraduate degree in 1984. I entered Georgetown Medical School last fall and have just completed my first year there. In part due to my father's condition and the expense of secondary education, I am the only one of eight children who has completed a college education. I have been very fortunate.

My mother, now a widow, currently supports three children, two of whom are disabled. Her total gross income for 1984 was $20,965. I have not obtained any financial support from my family for the past ten years. My medical school expects me to come up with $4,000 in personal resources for next year. Clearly, I have had to rely heavily on the GSL loan and other loan programs like ALAS and HEAL. I will continue to borrow the maximum amount possible—$5,000 a year—until my aggregate limit is used up. Although the administrations at medical schools (and Georgetown is no exception) discourage us from working due to the 40-hour class week of a medical education, I really have had no choice but to seek employment. Although I am thirty years old, I have chosen to live in a dormitory as a resident director to save money. May I state that I have not purchased a stereo, a Florida vacation, or any automobiles either. I am sure that my heavy expenses for medical education are shared by the more than one third of medical students attending private medical schools in the U.S.

I am very aware of the obligation which my indebtedness entails, I expect to repay all my loans, and I have participated in the debt management program which my school offers. Mr. Chairman and Members of the Subcommittee, my story is not atypical. There are scores of students in this country with bleaker financial backgrounds than mine. I have talked to many of my peers and they are serious about their chosen careers, and very serious about the resulting obligations. I was not the only medical student working in a dormitory this year, I was not the only student using a bicycle as primary transportation this year, and I am not the only student who would be harmed by cuts in student fiancial aid.

Since coming to Washington, I have been fortunate to have had the opportunity to work in our inner city at the Luther Place Shelter for Homeless Women and at the Zaccheus Medical Clinic, a free medical clinic offering assistance to people in our city who cannot afford private care. That experience has exposed the myth, in my eyes, that this country is creating a glut of physicians. That "glut" may exist in Potomac, Maryland but it certainly does not exist on 14th Street. I do not think I have to tell this committee that if the Reagan proposals are approved it will no doubt mean that the good people of Potomac will continue to receive the best of medical care. As for the citizens on 14th Street, I am less optimistic.

It seems as if the President would eliminate all avenues for all but the wealthiest of medical students to finance their education. Under his proposal, many minority and low income students will never even consider trying to become a doctor. Only the availability of manageable financing mechanisms will prevent a decline in their numbers. I implore you to support retention of funding and reasonable provisions for the programs named above. As a future physician, I care very much about the health care needs of this country. At this point in my life, I need the government's assistance in obtaining my education.

Again Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to tell my story. I will be happy to answer any questions you might have.

Mr. **Ford**. Thank you.

Mr. Martin.

Mr. **Martin**. Thank you, Mr. Chairman and members of the subcommittee.

The National Association of Student Financial Aid Administrators and its more than 3,100 member institutions appreciate being invited to appear today.

I'd like to primarily focus my remarks today, Mr. Chairman, as you requested, upon two issues that I know the subcommittee will be looking at during these reauthorization hearings, and that is upon loan consolidation and the question of copayability.

NASFAA has always supported the concept of allowing students who have high levels of indebtedness or who have borrowed from more than one loan source to consolidate their loans. We believe that this helps to make the repayment obligations much more manageable and to reduce their future possibilities of default.

Increasingly, we are finding that students today—just as this young man sitting beside me has indicated—many of these students are required to borrow funds from a number of programs in order to fully meet their postsecondary educational expenses.

Additionally, we find that many of these students, for a variety of reasons, may also be required to borrow from more than one lender. Therefore, that is why we so strongly support the concept of loan consolidation.

I realize, Mr. Chairman, that this is not an issue that has not been before this subcommittee before and was, as authorized by this committee in 1980, as a part of those educational amendments.

Unfortunately, however, we are all aware that that authority was not extended since 1983. Consequently, that is why we are delighted and pleased that it has been raised again.

There have been a number of other loan consolidation alternatives, however, that have been advanced, and I think that it is important today, as we revisit this issue during these reauthorization delibrations, that we look carefully at some of the concepts or some of the issues that have been raised previously.

Let me say also, Mr. Chairman, that NASFAA, in particular, wants to note that we wholeheartedly supported and believed in the original structure that was outlined and was approved by this Congress in the 1980 amendments, and we believe that that system of loan consolidation served students well. Unfortunately, it didn't last long enough to really see probably the full benefits.

We also realize that some people have criticized that program because it provided the Student Loan Marketing Association with the sole rights to operate such a program, and therefore some people felt that they had somewhat an exclusive monopoly. But I must say that, clearly, their program did work, and it served a lot of students, and that's a credit to Mr. Fox and the people at the Student Loan Marketing Association.

NASFAA, on the other hand, has never opposed the extension of consolidation authority to other eligible entities, whether they be agencies or other lenders. We have consistently stated, however, that if other parties are to be involved, then the program structure, the terms, and the procedures should be uniform and should be consistent.

The reason for this is very simple: That we in the institutions are required to disclose this information to students, and, therefore, if we have multiple variations on the same thing, it will be much more administratively complex.

In addition to that, we are concerned that there be consistency in terms of the terms that are afforded to various borrowers, and we don't think it would be fair if some are offered terms that are more favorable than others.

That does not mean that we could not have a program that might not have three or four variations on how a loan consolidation could be done, but the fact is that we still believe that there should be overall consistency with the program.

From another point, administratively, we also believe that, in the event that some agency or lender begins to participate in loan consolidation and at some point they find that they no longer wish to continue to do so, if there is consistency, it would be much easier for some entity that is involved to pick up that portfolio and continue to service it. With those kind of terms, that transferability is much more reasonable.

Another issue that has been raised about loan consolidation, and particularly by the administration during its review of it in 1983, was costs that are associated with the program.

While we certainly understand those concerns and realize, as some peope have pointed out, that the special allowances may be paid on those loans for a longer period of time, therefore causing cost to the Government to incur, we think it's important to look at the program and that, if it's carefully structured, actually we believe it can be cost-effective for the Federal Government.

For the past several years, the costs that have associated with GSL defaults have been increasing, and while loan consolidation, in and of itself, will not completely alleviate these costs, it certainly can help to reduce them, particularly in those cases where students simply cannot meet their multiple loan repayment obligations and subsequently end up in default.

Therefore, we believe that it's very prudent for the Federal Government to expend the few additional dollars that are associated with the loan consolidation program to avoid having to pay out the full costs that subsequently may be associated with defaulted loans.

Additionally, we would also propose that students who utilize loan consolidation to extend their repayments beyond the normal 10-year repayment period could incur an increasing proportional amount of the additional costs that are associated with such extensions. This could be done by automatically increasing their annual rate of interest.

We believe that such an approach not only will help to offset the additional Federal costs, but it also encourages borrowers to repay their loans in a timely manner while still providing them with needed flexibility at reasonable cost to select the repayment option that best meets their particular needs.

We have proposed these changes as a part of our formal legislative recommendations, Mr. Chairman, and would simply note that the interest rates that we have put forward are simply examples. Obviously, the program could be structured and the rates could be set based upon whatever amounts this subcommittee feels are appropriate.

We would be happy to work with the subcommittee and our colleagues in NCHELP and the lending community and the Student Loan Marketing Association to develop those proposals for you further.

One other issue that has come up regarding loan consolidation is the question of eligibility—of who should participate in loan consolidation. We have seen several recommendations in the past that have been made in this area. Some have suggested that all borrowers who have an outstanding indebtedness of $5,000 or more should be eligible to apply.

We believe, on the other hand, and have recommended, Mr. Chairman, that the existing legislation that was approved in 1980, which said that unless a student had an indebtedness of $7,500 or more under a single program, or $5,000 with two or more loans or two or more lenders, that they would not be eligible.

We have looked at that very carefully and believe that those procedures are reasonable. We believe that with the current 10-year repayment, for amounts below $5,000, unless they come from more than one lender, that it's simply not necessary to allow that student loan consolidation.

So we would simply recommend that we stay with the existing recommendations that were made in 1980 and feel that they are still prudent today.

Another suggestion that has been made that affects eligibility is the idea of having loan consolidation applicants undergo a financial needs test. The reasoning behind this approach, we assume, is to ensure that only those persons who do not have adequate financial resources to fully meet the repayment obligations be granted eligibility to participate in the program.

While this concept may sound reasonable, the implementation and administration of such a requirement would only add unnecessary costs and complexity to the program, in our opinion.

Depending upon when the person actually applied for loan consolidation, a financial needs test may or may not be meaningful in reflecting what that person may be able to pay in future years.

Therefore, it also, to be fair, is going to have to be more complex than simply looking at monthly or annual income, because we also would want to look at the marital status of that student, the number of dependents that they may have, and other available assets and obligations. Therefore, it would have to be a comprehensive test.

To do that, it will require some complexity that I think has not been carefully reviewed by many of the people that have reported that test previously.

One other factor that I think exists with that is that many people who have proposed a needs test have not really answered the questions of how it's going to be administered or who is going to evaluate such tests or who is going to bear the costs that are associated with it.

Therefore, we believe that the program can be structured without that unnecessary complication and can still be cost-effective.

As someone who has had first-hand experience in designing and administering needs tests for other student aid programs, I can assure you and the members of this committee that the details and logistics of such and the costs and the workloads associated with it are not insignificant if it's done correctly.

So we do not think that this is a necessary requirement of the program and therefore would oppose its use.

Let me now turn to the second issue, Mr. Chairman, that you asked us to address, and this is the question of copayability.

I probably should apologize to Congressman Coleman, because I suspect that we may disagree here slightly with his upcoming bill on one matter.

We, too, have been concerned for some time to make certain that the checks that are disbursed to students for educational expenses, in fact, are used for that purpose and, therefore, we have recommended in our legislative recommendations that all checks be made payable to the student but that those checks be sent to the institutions for disbursement.

Originally, we also had looked at the idea of having the checks made copayable in the form of the student and the institution itself, but we rejected this idea simply because of the administrative burden that we discovered would be imposed upon certain institutions, particularly those in the public sector.

In our examination of the feasibility of requiring copayable checks, we discovered that many State laws and regulations require all checks that are made payable to those institutions must first be deposited in the State's treasury account. After those funds are deposited, then that institution, or in the case of the State, may be required then to issue a separate check which would then go to the student to pay for the loans.

We believe that if all checks are made co-payable to the student and the institution, then these policies would provide additional administrative expense and perhaps delays upon the student receiving the funds.

So while we support the concept of tighter fund control, ensuring that the students are using the funds as they are intended, we would simply recommend the requirement that the funds go to the institution who, in turn, would dispense them to the student rather than directly to the individual student, as many lenders now do.

One last comment dealing with that also, Mr. Chairman, in terms of those funds. Our proposals also provide that a lender may have the option, or a State agency, in transmitting those GSL proceeds electronically to the institution.

It is our belief that, in these days of electronic transfer and direct crediting of accounts, inclusion of such a provision of the GSL Program may enable lenders and guaranty agencies and institutions to develop more effective and efficient ways to serve student borrowers in the future.

Obviously, there would be some administrative requirements that we would have to work out under such a program, but we feel that this could be done and that it's an idea that may help strengthen the program in the future.

We have other recommendations, Mr. Chairman, which I have included in my recommendations, which I will not elaborate on at this time, but I do hope that they will be considered as you look carefully at the Guaranteed Student Loan Program.

Again, let me say, Mr. Chairman, that we appreciate the opportunity to appear before. We certainly look forward to working with you and the members of the subcommittee during this process, and we will be happy to respond to any questions at this time.

[The Prepared statement of A. Dallas Martin follows:]

PREPARED STATEMENT OF A. DALLAS MARTIN, JR., EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman, Members of the Subcommittee, the National Association of Student Financial Aid Administrators and its more than 3,100 members sincerely appreciate being invited to appear before you today to discuss the Reauthorization of the Higher Education Act of 1965, and in particular the Guaranteed Student Loan program (GSL).

While our complete testimony provides a number of legislative recommendations that will help to improve the administration and further the goals of the GSL program, per your request our primary focus today will be upon the need for this Subcommittee to carefully examine the issues of loan consolidation and copayability as they relate to the Guaranteed Student Loan program.

NEED FOR LOAN CONSOLIDATION

NASFAA has always supported the concept of allowing students who have high levels of indebtedness or who have borrowed from more than one loan source, to consolidate their loans, thus helping to make their repayment obligations more manageable and to reduce the possibilities of default.

Increasingly, our members are finding that in order to obtain the amount of needed funds to meet the full costs of attendance, many students are forced to borrow from different loan programs such as the Guaranteed Student Loan program (GSL), the National Direct Student Loan program (NDSL), the Nursing Student Loan program (NSL), the Health Professions Student Loan program (HPSL), or the Health Educational Assistance Loan program (HEAL). Additionally many students, for a variety of reasons, may borrow from more than one lender during their educational careers.

Currently, most lenders under the GSL program attempt to consolidate all of a student's loan notes that were originated with that lender provided that the terms and conditions of the various notes are the same. Likewise, most educational institutions provide students with similar consolidated repayment arrangements for all of their National Direct Student Loans. Student borrowers, however, with notes from different lenders and those who borrow from multiple loan sources, have no such recourse. As you and the Members of the Subcommittee know, Mr. Chairman, the issue of loan consolidation has been before the Congress for some time. First addressed by both the House and Senate in the 1980 reauthorization amendments, loan consolidation was authorized by Congress for implementation by the Student Loan Marketing Association (Sallie Mae) effective January 1, 1981. The Sallie Mae consolidation program entitled "OPTIONS" provided a reasonable and sound alternative for borrowers to repay their loan debts. Under the "OPTIONS" program, some 32,000 borrowers consolidated $390 million. The program met with an unfortunate end in the fall of 1983 when Congress failed to extend Sallie Mae's consolidation authority or enact similar legislation.

I should note for the record, however, that the House attempted to keep the program alive and in December of 1983 passed a student loan consolidation bill. While that version was less favorable to borrowers than the terms under the original consolidation program, it at least attempted to provide an alternative for students with high indebtedness. The full Senate, however, did not elect to take action on loan consolidation.

While other loan consolidation alternatives have been advanced since, most of the proposals have included unnecessarily complex and administratively burdensome features with unfavorable implications for borrowers. As we revisit this issue during the reauthorization deliberations, we should not forget the important intent behind the loan consolidation concept—to assist borrowers in repaying their student loan debts in a timely and efficient manner. We must not create a confusing, complex system that purports to be for the benefit of students when in reality it is not. As I mentioned earlier, NASFAA supports the concept of loan consolidation, but we strongly believe the program should be a stable and effective mechanism for assisting students. We supported the original structure outlined in the 1980 Amendments and believe it served students well. I realize that some people felt Sallie Mae had an exclusive monopoly under that structure, but the fact is it worked. NASFAA has never opposed the extension of consolidation authority to other eligible entities. We have consistently stated, however, that if other parties are involved, the program structure, terms, and procedures should be uniform and consistent. Our reason is simple. Institutions are required to disclose loan consolidation information to borrowers as a part of the consumer information requirements. It is therefore essential that we do not have multiple variations on the same theme, all of which have to be described separately. Further, if there is not consistency, some borrowers may be afforded terms and conditions that are more favorable than those offered others. While we do not oppose the offering of three or four repayment variations from which a student may choose, we do believe that all borrowers should be given the same set of alternatives. Additionally, if a lender or agency establishes a loan consolidation program and for some reason subsequently ceases its participation, then it would be far easier for another entity to pickup that portfolio and continue to service it if all of the notes and terms were consistent. On the other hand, if they are not, then the transferability becomes a much more complicated and expensive proposition. Unfortunately, this issue has not been adequately addressed in any of the subsequent pieces of legislation proposed since consoidation authority expired. We have attempted to address the issue in our reauthorization recommendations and would ask the Subcommittee to seriously consider the ramifications if the issue of consistency is not addressed.

COSTS ASSOCIATED WITH CONSOLIDATION

Another issue that has been raised regarding loan consolidation has been the additional federal costs associated with such a program. The Administration in particular emphasized this point as a part of its objections in 1983, noting that loan consolidation simply increases the period of time over which the federal government has to pay the special allowance on those loans. While this is an important point to consider, we firmly believe that if properly structured, a loan consolidation program can actually be cost-effective for the federal government.

For the past several years the costs associated with GSL defaults have been increasing. While loan consoliation in and of itself will not completely alleviate these costs, it certainly can help to reduce them, particularly in those cases where students simply can not meet their multiple loan repayment obligations and subsequently end up in default. Therefore we believe it is prudent for the federal government to expend the few additionl dollars associated with a loan consolidation program to avoid having to pay out the full costs associated with defaulted loans caused because of unmanageable debt payments.

Additionally, we would propose that students who utilize loan consolidation to extend their repayments beyond the normal 10 year repayment period, incur an increasingly proportional amount of the additional costs associated with such extensions by automatically increasing their annual rate of interest. Such an approach not only helps to offset the additional federal costs, but also encourages borrowers to repay their loans in a timely manner while still providing them with needed flexibility at reasonble costs to select a repayment option that best meets their particular needs. Therefore, we are recommending that consolidated loans made under such a program should bear interest at the rate of the weighted average of the interest rates on loans that are consolidated. Further, such an amount should not be less than 8 percent for loans that will be repaid within 10 years, 10 percent for loans repaid within 13 years, 12 percent for those repaid within 16 years, and 14 percent for those repaid within 20 years. Obviously these interest rates could be adjusted to whatever amount the Subcommittee feels is appropriate, but the concept is to have the student borrower share an appropriate amount of the overall cost for the privilege of being able to extend his/her repayment obligation.

ELIGIBILITY CRITERIA

Another issue regading consolidation that needs to be carefully considered by the Subcommittee is the terms of eligibility. NASFAA recommends that eligibility for consolidation be limited to those persons who have at the time of application, an outstanding indebtedness of $7,500 or more under any single federal loan program or have an outstanding indebtedness of $5,000 or more from two or more federal loan programs or lenders. Additionally, if the borrower is already in repayment status at the time of application for loan consolidation, the person should not be eligible if more than 60 days delinquent on their repayment. Parent borrowers, under the PLUS program would also not be eligible to consolidate the loan(s) they secured for their children. These debt levels were included in the eligibility criteria in the initial legislation in 1980 and are still appropriate today.

In the past, others have recommended amending the eligibility to include all borrowers with an outstanding indetedness of $5,000 or more to apply for loan consolidation benefits regardless of whether such borrowing has occurred under one loan program, or a single lender, or under two or more programs or lenders. We believe, however, that such a change is not necessary for this level of indebtedness unless the person is being required to make monthly payments simultaneously on more than one loan. Otherwise the normal repayment provisions, which include a minimum monthly payment and a maximum ten year repayment period, should not provide to be a major hardship on the majority of borrowers. In those extreme cases where a person has had health problems, experienced unemployment or some other unusual circumstance, the repayment terms can, under current statutes, be adjusted appropriately by the holder of the note with the concurrence of the borrower. Therefore, to change the eligibility for participation in loan consolidation for all persons with an indebtedness of $5,000 or more would simply add program costs we do not believe are necessary.

OPPOSITION TO THE USE OF A NEEDS TEST

Another suggestion that has been made which effects eligibility is the idea of having loan consolidation applicants undergo a financial needs test. The reasoning behind this approach is to insure that only those persons who do not have adequate financial resources to fully meet their repayment obligations are granted eligibility to participate in the program. While the concept is reasonable, the implementation and administration of such a requirement would only add unnecessary costs and complexity to the program. Depending upon when a person elects to apply for loan consolidation, a finanial needs test may or may not be meaningful in reflecting what the person may be able to pay in future years. If the needs test took into consideration the individual's annual or monthly gross income as a measurement of what they might reasonably be able to pay, then it would also have to carefully weigh a number of other factors including the person's other financial obligations, marital status, number of dependents, and available assets. Without such a comprehensive needs test, it would be very difficult to evaluate fairly a person's ability to repay his or her student loans. Further, when the person applies for consolidation will also make a big difference in the results of the needs test. For example, if a student applied for consolidation as soon as he or she graduated and was about to enter repayment, then such a test might well show that their current financial circumstances certainly warranted eligibility for loan consolidation. On the other hand, if the same person did not apply until three years later, then the circumstances might be different. In other cases the revese might be true. The point is that people's financial circumstances do change, and therefore the use of such a test is only a reasonable measurement for a short period of time. That is why we require students who receive existing need-based student aid to reapply annually. However, to do so with a loan consolidation program is unreasonable, unnecessary, and far too costly. That is why we believe that our approach, which helps to proportionately increase the interest rates based upon the time needed to complete repayment, is a better and simpler way to address the issue.

Another factor that should be considered if a needs test is used, is who is going to administer and evaluate such a test? Is it to be the lender or agency which does the consolidation or is it to be the school or an entity of the Education Department? Who is going to bear the costs associated with administering the test? Is it the borrower or is it the evaluating agency? To my knowledge, the parties who have proposed the use of a needs test have never completly addressed these issues, and yet they must be carefully considered. Having first hand experience in designing and administering needs tests for other student aid programs, I can assure you that the details and logistics, a well as the costs and workload associated with such, are not insignificant if done correctly.

ISSUES REGARDING COPAYMENT OF LOAN CHECKS

The second primary issue we would like to address is the manner in which a loan check is disbursed to a student. The current statute notes that GSL "funds borrowed by a student" must be "disbursed by check payable to the order and requiring the endorsement of such student." While this provision does not prevent a lender from sending a GSL loan check directly to the institution, which in turn would disburse the check to the student, it also allows the lender the option of sending the check directly to the student. Obviously the vast majority of students who receive these funds, either directly from the lender or by picking them up from the schools, in turn utilize the dollars for their direct educational expenses as the law intended. But unfortunately, our members have encountered a limited number of cases in which students failed to follow through with their enrollment after they received their loans directly from the lender, or who have used the proceeds for purposes other than paying for their direct educational costs. These occurrences, while limited in number, happen more frequently when the loan check is sent directly to the student than when it is made out to the student and mailed instead to the institution. Therefore NASFAA's legislative recommendations propose to tighten up the fund control in the GSL program to help ensure that borrowers use their GSL proceeds for educationally related expenses. As such, we have proposed that all GSL loan proceeds be sent to the institution for dissemination to the student borrower, and that such proceeds be identified as GSL funds. While we also seriously discussed the idea of required copayability (i.e. the check being made out to the order of both the student and the institution), we have not made this recommendation. The reason we rejected this idea is simply because of the administrative burden that it would impose upon certain institutions, particularly those in the public sector. Our examination of the feasibility of requiring copayable checks found many state laws and regulations require all checks made payable to the institution to be deposited in the state's treasury account. After these funds are deposited, a separate state check has to be issued to provide the funds to the borrower. If all GSL checks were made copyable to the student and the institution, then those schools which have such state policies would experience major administrative expense and workload. Additionally, this process, in many cases, would also delay the disbursement of funds to the student. Therefore, we have recommended an approach which will help to provide better fund control while not imposing any unnecessary delay or burden upon either the student, the lender, or the school.

ELECTRONIC FUND TRANSFER

Our proposal also provides that a lender may have the option of transmitting GSL proceeds electronically to the instittion. It is our belief that in these days of electronic fund transfer and direct crediting of accounts, inclusion of such a provision in the GSL program may enable lenders, guarantee agencies, and institutions to develop more effective and efficient ways of serving student borrowers. Obviously, certain administrative requirements would have to be followed to insure proper identification of the funds and to protect the rights and fiscal responsibilities of all parties, but we feel that these procedures can be developed and refined once the concept is adopted.

OTHER RECOMMENDATIONS

In addition to these recommendations, we also have proposed that lenders be required to disburse GSLs in multiple installments in accordance with regulations developed by the Secretary, except that such regulations shall not require multiple disbursement of any loan approved for a course of study that is less than six months in length. While the current statute permits lenders to multiply disburse loans, it does not require such. In fact, only about 20 percent of all current loans are disseminated through multiple disbursements. We strongly believe that if all GSL lenders adhered to a multiple disbursement system, that fund control would be improved and that loan defaults would decrease. Analyses that have been done show that student borrowers who do not persist are subsequently more likely to default on their loans than students who do. From experience, many of our members also have observed that frequently students who drop out do so during the first term of the year. Many of these students may have applied for and received a GSL for the entire academic year. When these sudents drop out during the first term, they have in their possession half of the loan proceeds that they were expected to expend for their second term. While many of these students immediately repay the unused portion of these funds to the holder of their note, many others do not do so at the time they leave the school. If the person subsequently defaults on their loan, then the amount in default is often twice as much as it would have been had the loan been given under multiple disbursement. Therefore, by requiring multiple disbursements and having all GSL loan proceeds sent directly to the schools, we believe that substantial cost savings can be achieved in the GSL program, while also improving its integrity. We therefore would hope that this Subcommittee would look favorably upon these changes.

In addition to these recommendations, we have also submitted a number of others that we believe will help to strengthen the program, insure reasonable access to loan dollars, and improve the administration and collection of GSL funds. Our proposals include: the establishment of a lender-of-last-resort in each state to insure that all eligible students can fairly obtain a GSL; elimination of the 15 year payoff provision as it relates to individual loans from the date of disbursement to the date of final payment; a requirement that all students undergo an annual needs test to determine their eligibility for a GSL; extension of the grace period from six to nine months; a prohibition of charging an insurance premium on consolidated loans; authority from the Secretary to enter into agreements with credit bureaus, the Internal Revenue Service, or other federal agencies to exchange information about student's loan status or whereabouts to improve collections; and repeal of the 5% loan origination fee. Further, with some reluctance, we have also recommended modest increase in both the annual and aggregate loan limits for both the GSL and PLUS programs to help students secure adequate capital to meet rising eucational expenses. While we have proposed modest increases in the loan limits, I should note that NASFAA members are very concerned about rising student indebtedness levels and the impact that such has upon students, including their career choices and future life decisions, as well as upon our society as a whole. We believe that high levels of student educational indebtedness may well begin to seriously impact the economy of this nation as well as many of its citizens, and therefore we would seriously hope that throughout the reauthorization deliberations the members of the Congress would give serious thought to readdressing the appropiate balance between grant and work programs and student loans.

Again we thank you, Mr. Chairman, for the opportunity to appear before you and this Subcommittee, and sincerely look forward to providing the Sucommittee with any assistance that we can as you proceed with this reauthorization process. I will be happy to respond to any questions that you have at this time.

Mr. FORD. Thank you.

Mr. Fox, how would you respond, from the standpoint of the lenders, to the suggestions of Ms. Frohlicher and Dr. Martin with respect to changing the interest cost to the student in some period after a loan is in repayment? How would the lenders react to that?

Mr. FOX. The problem is going to be to create a payment stream for the student that induces that student to actually undertake the consolidation.

If you were to increase the interest rates and thereby decrease the value of the consolidation so that there is only a nominal amount of saving on a monthly basis, there would be no inducement to the student to participate in the program.

We found that it took about a one-third reduction in monthly payments, perhaps from about $150 to $100 a month, to be sufficient enough an inducement for a student to make that change.

Were you to increase the interest rates, you'd find that the monthly payments would not be as beneficially reduced. The trick is to try to find some kind of a formula whereby a combination of debt extension in terms of term and interest payment give the student that kind of a benefit to induce them to participate in the program.

Some of the programs were taking 7 percent students up to 10 percent by some of the recommendations a year or so ago. By the time that you stretched out the payments from 10 to 20 years, the monthly savings were only about $10 or $15, yet the student was paying about two times as much interest over the life of the loan, and the result was no benefit whatsoever to the student and no inducement to undertake the new loan.

I believe that you can offer a combination of extension of term and perhaps a moderately increased interest rate and get the benefits to the Government of reduced default, but you have to look at all the aspects but, most primarily, the monthly payment the student would be offered.

Mr. **Ford**. Do either of you want to respond to that?

Mr. **Martin**. I would just point out that I think Mr. Fox is correct. We have been concerned about this same thing, Mr. Chairman, because if it's not structured carefully, then obviously the benefits of loan consolidation simply do not make sense.

That's the reason I said in my testimony I think we'd have to look very carefully at the percentage of those.

However, I think we believe that, for the advantage of having loan consolidation for the out years, that the student also, we have to keep in mind, has some advantages over the other students that we're subsidizing from the standpoint that they have that additional length of time and they also may be paying that back with dollars that have somewhat been reduced in deflated dollars because of inflation.

Consequently, as a result of that, I think to ask them to share some portion of it is important.

It's also difficult in this context of just talking about loan consolidation, I guess I'd have to say, because in our recommendations we make some other changes. We do not, for example, as some of the other groups have, recommend changing interest rates on students.

We also would propose getting rid of the origination fee and some other things that we think provide students some better advantages.

So to increase the cost in the loan consolidation, we think, may be a reasonable trade.

Ms. **Frohlicher**. I would concur in what they are saying. I did not want to mislead the subcommittee as to what I was talking about with a variable rate market rate instrument.

Our proposal is not that that be the consolidated instrument of a student who is now borrowing at 7, 8, or 9—that the NCHELP long-range reauthorization proposal for all new borrowers after a set effective date.

The reason I raised this was the ability to go to a market rate with a catastrophic cap of 12 percent, but the ability to extend between 10-year repayment and 25-year repayment with no cap would deal with the need for consolidation when you had a student already receiving that kind of a variable rate note. All he would lose would be the protection of Federal special allowance above a 12-percent cap between years 11 and 25. You would obviate the need for a special consolidation program to meet that student's needs.

The demand on a special program with special rules to consolidate would only be, at that stage, for the student with multiple lenders, who would have to have a new note written for him, but any student who just needed extension of term with that revised interest rate for all new borrowers, I would thoroughly concur with both Mr. Martin and Mr. Fox that you have to be very careful in a consolidation program for existing borrowers to set that interest rate at something that does not show an immense cost to the Treasury affecting the consolidation program but, at the same time, shows sufficient saving in monthly payments to the students to encourage them to do it.

Mr. FORD. Thank you.

Mr. Coleman.

Mr. COLEMAN. Along those lines, I'd like to continue, because I thought I understood your proposal, and now I'm not sure that I do.

Ms. FROHLICHER. OK.

Mr. COLEMAN. When a student takes out his original loans, is he told then that, if he max's up to the cap, it would be possible for him to then have his loans consolidationed from 11 to 25 years? Does he know this when he goes into the program?

Ms. FROHLICHER. As I understood, the way I would proceed, yes. Just as a borrower today is told this loan will be 7 percent or this loan will be 9 percent or whatever, a new borrower, someone with no outstanding obligations, would be told at the time he takes out the loan, the interest rate, when you go into repayment on this loan, will average 91-day T—a bond equivalent rate of a 91-day T-bill plus 3.5; your interest rate cannot go above 12 percent, no matter what happens as the T-bill, as long as you repay that loan in 10 years.

If you and your lender at the time you enter the repayment phase can agree to any term up to 25, the Federal obligation to subsidize above that cap will maintain for that 10-year period. If you agree to a 20-year repayment program, the last 10 years you will be taking your risk at market.

Mr. COLEMAN. So the Government would agree up to 12—

Ms. FROHLICHER. The Government would subsidize—if T-bill plus 3.5 exceeded 12, there would still be a special allowance—a quarterly determination, the same way that banks do variable rate notes right now.

Mr. COLEMAN. I see.

When do you find that borrowers are interested in loan consolidation? Is it immediately upon graduation, 5 years out, or what?

Mr. FOX. About three-quarters of the people who showed an interest in loan consolidation were in the grace period where they were beginning to come to grips with the fact that they had minimum repayment schedules that were going to have to be met with a number of lenders and suddenly realized that, under a $30-a-month, or $50-a-month, or whatever program that they had, this was multiplied by the various programs they had, and suddenly they had a much higher debt burden on a monthly basis than the cash-flow would permit.

It was at that point, before they went into repayment, that, during the 2-year period we managed the program, they showed the greatest interest.

A very modest number of people who had been in repayment for a couple of years were having difficulty in managing their debt burdens also came to us.

The totality of people who actually showed an interest was quite small, frankly. I would guess than no more than 3 or 4 percent of all outstanding borrowers showed an interest, and only about a third of those actually undertook to consolidate their indebtedness under the terms that were available in the program.

Mr. COLEMAN. And that program ceased when?

Mr. FOX. October 31, 1983.

Mr. COLEMAN. Mr. Martin, you mentioned that you would explore the possibility of electronic transfer of funds to the institution. Wouldn't that require a disbursement check to a student eventually, assuming that there were monies left over for living expenses and so forth?

Mr. MARTIN. Let me attempt to respond to that, Mr. Coleman, because, clearly, as I pointed out, we would need some safeguards.

In our actual legislative recommendations, we speak to that in terms of the need to notify the student of that, so, in identification of GSL funds so that they are aware that it is an obligation.

What we see is—for example, let's say that we have a lender in an area that may be providing the majority of loans to a particular institution, and rather than that lender, perhaps, having to write an individual check to each and every one of those students, if they had the ability to transfer those funds in total to that institution and the institutions, many times, through their process may automatically credit a major portion of that to students' tuition and fees and simply give the student the balance that is due to them, in this way, you could do the most of that, the proceeds could still be identified by the institution as loan proceeds and identified as such, the student would still have a signed promissory note, but it's just the instrument itself.

There would be an audit trail they could go through, and then the balance could be given to him.

We're moving into an era where more and more of this kind of automatic transaction is going on in the financial communities, and what we're simply suggesting in our reauthorization proposals is that consideration be given to allowing that kind of flexibility.

I suspect that my colleagues in the lending community and also with the State agencies might well figure out ways of dealing with that that could possibly provide some efficiencies and cut down on some of the paperwork and expenses that are associated with administering the program.

Mr. COLEMAN. Would anybody care to comment about copayment?

Ms. FROHLICHER. I can address that.

Mr. COLEMAN. Ms. Frohlicher.

Ms. FROHLICHER. From NCHELP's point of view, I think we concur with the financial aid officers. Our recommendation is somewhat different from theirs, but the net result is the same.

We recommend that checks be copayable, except in the specific circumstances that Mr. Martin outlined. There are States that would have an extreme amount of difficulty.

With the question of electronic transfer and simplification, I think Mr. Donovan, on the next panel from the Washington guaranty agency, in conjunction with his description of their multiple disbursement escrow program, can probably give you a good reading on what States can do, again, to simplify a lot of the procedures.

Mr. COLEMAN. If I might ask a last question, we received testimony in a field hearing last week in St. Louis, that indicated that there were attempts by the lenders to provide as large a loan as possible to borrowers, even when it was unnecessary.

Have you seen this phenomenon? Mr. Martin, would you address yourself to that?

Mr. MARTIN. Mr. Coleman, I think that we've certainly had some isolated circumstances which I think perhaps have occurred, but I don't think that we have found any evidence that that is the overwhelming practice that is going on in the lending community.

To the contrary, I think that what we're finding is that most lenders—and particularly with the current requirements—are making those loans in the amounts of that's students need, and in most cases the students qualify for the full amount; in some cases, it may be less.

There is concern about making very small loans, and obviously that's why, in the provisions there, we have the provision that loans with the student that is having need, that goes to the needs test with a need of $500, up to $1,000, may get to the full $1,000 to deal with the small loan balance.

We don't find too much evidence of people trying to do that. There are a few people, because I think they understand that it's more cost-effective, the bigger the loan. But I think those kinds of practices are fairly limited, and most people, I think, are behaving very responsibly, generally, across the program.

Mr. COLEMAN. Thank you.

Mr. FORD. Mr. Gaydos.

Mr. GAYDOS. Mr. Lawlor, let me publicly commend you for your courage in appearing before this committee and spreading on the record your background and the circumstances surrounding your matriculation now at a college of your choice.

Let me ask you some practical questions.

Did you appear here today because of your own volition, or did someone ask you to appear?

Mr. LAWLOR. I think I was one of the few warm bodies that were left over after the exam.

Mr. GAYDOS. Do you want to answer the question?

Mr. LAWLOR. I was invited to come by NASFAA.

I participated in our financial aid community at Georgetown this year. Through my relationship there and our relationship with NASFAA, I was invited by them to come and give my personal testimony.

Mr. GAYDOS. You demonstrate a familiarity with the existing legislation, and you've utilized some of the programs—and rightfully so. I know you are going to make a good doctor, because you show persistence.

Let me ask you, in projecting your thinking, as a young professional in a chosen field that presumptively is going to provide you with substantial renumeration, do you intend—do you think that you will be forced to take advantage of or resort to—whichever way you want to look at it—consolidation and extension of your loans which, by the time you graduate, are going to be quite substantial?

Could you give us some insight from a student as to how you feel, if you can project at this time, what situation you are going to be in?

Mr. LAWLOR. It has been an issue since I've decided to pursue the education, particularly at an expensive institution like Georgetown.

Mr. GAYDOS. You talked about $100,000. I have to presume that's pretty accurate. Is that right?

Mr. LAWLOR. It's probably between $100,000 and $130,000, depending on what private assistance I may be able to obtain over the next 3 years.

My particular interest in entering primary care and my interest in working in the inner city is a lifestyle choice that I have been thinking about for a number of years. In fact, one of my largest concerns regarding assuming a debt like I am assuming is that that choice will be restricted, if not prohibited.

In other words, the advantages of entering corporate health care are numerous, including the great possibility of enormous renumeration, and the possibility of managing that debt increases substantially.

With loan consolidation, I would, in fact, be able to, during my earlier years of training, have a wider availability of choices regarding the population I'd like to work with and have the opportunity to spread that debt over a longer period of time and in smaller parcels, and be able to choose primary care as my field of choice.

Mr. GAYDOS. Am I very far off when I say that I think, historically, indentured servitude has gone out the window, and if you start consolidating and extending, are we talking about a concept that is contrary to the democratic philosophies that we all try to live by and try to project in this society?

You are talking 20 years—a long time—to add to other financial obligations you are going to incur as a citizen of this country, and all because of the accident of birth, where you have to struggle on your own to take advantage of your God-given talents. Not everybody can get into medical school. In fact, it's a very select group, as we all know.

I'm probably trying to say—and I'm very clumsy in saying it—that my feelings run along the lines of considering some experiments we've had in the past, some programs—I understand some are still in existence today—that is, given to teachers, where they teach in a certain area in a certain subject matter, and there's a forgiveness. We talk about teachers in a dangerous situation where there is special forgiveness. We talk about Head Start and things like that.

Again, let me very clumsily take my position. To me, this very free talk of extension and consolidation, putting it on a business basis, just doesn't seem to be the proper, full answer, as I see it in my probably limited understanding of the situation, and speaking on behalf of the people I represent.

I just can't comprehend, and I'm not too enthusiastic about that aspect—that solution to the problem. So again I come back, and I ask you. Here you are. You're thrust into a position where you're going to be probably the greatest exponent and probably the best example of what a young American citizen, after following your particular situation—what he finds himself in, as a practical matter, after he has completed probably one of the most arduous tasks, and that is to graduate from medical school. That's the insight I'm looking for.

You did make a statement—and I'll stop—you did make a statement, you're going to pay that loan back, and I believe you, because your persistence permeates your whole personality. How are you going to do it?

Mr. LAWLOR. Mr. Gaydos, let me say first off that, while technically I may be a member of an income group of people who are lower middle class, in fact, I have benefited terrifically from my color and my sex—gender by getting accepted in medical school. I don't think I'm one of the few gifted. I think there are many, many people in this country who would qualify for medical school under different circumstances. I think it has been a huge stroke of luck.

I look around me sometimes, not only in my classes but on the streets of Washington, DC, and realize how fortunate I really am to be present in that class of 205.

I do agree with you that it takes a certain discipline to pursue medical education and a certain gift, which I'm grateful for. I don't think I'm part of an elite population.

Nevertheless, I am a dreamer and am somewhat rooted in reality. By accepting these responsibilities, I am accepting the conditions of my time.

I guess, after 3 years of an education in and outside of the Healey Gates at Georgetown in Washington, I've come to realize that to work within the system, as I see it today, I have had to accept the responsibilities of this financial situation.

In my better world vision, I'm with you; I could use a subsidy; I could use a Public Health Act; I could use a public health scholarship to pursue the kind of work I want to do without the burden of this debt.

As I see it, though, in my particular circumstances, it's going to be necessary for me to work, moonlight, find private means, and imagine other ways of financing this education. It's the reality that I accepted when I said to Father Healey, "Yes, I'm coming to your medical school in the fall of 1984."

Am I responding?

Mr. GAYDOS. Yes.

Let me just say, you're an extraordinary student and an extraordinary American. Believe me.

It bothers me as far as the elongation of the debt of people in your category and for individuals such as you. I think that, philosophically, we could probably approach the problem from a different angle, but that's not the purpose of our hearing.

Let me skip over to ask some of our experts in the field who are encouraging—and I think rightfully so—at least some elimination of the prolongation of the ability to pay back, so that I imagine the primary critic of nonpayment responded to an answer.

Let me ask you, when you consolidate and expand a debt, what additional costs—I hear both of you have primarily referred to additional costs. What are you talking about in additional costs, other than interest?

Mr. FOX. In the back of my prepared testimony, there is a lengthy explanation of all the different steps.

Mr. **Gaydos**. I apologize for not being exposed to that. Could you concisely just refer to it? What kind of costs are you talking about?

Mr. **Fox**. The law stipulated that we had to reach out and to indicate to the population that there was such a program and to indicate what the eligibility standards were and the like.

So we had to enter into a very costly advertising campaign to try to reach out, because there was no way that, on a rifleshot basis, we could find them.

Then we had to issue relatively complex documentation for the student debtor to complete relative to where all their debt was located, the amounts, the repayment schedules, and the like, and they had to start a communication process with us.

Once they had established that they had an interest in doing this, that they wanted to get some form of debt consolidation, we had to establish a repayment date, issue notes, go through a series of normal banking origination processes, so that on a date specific a number of notes could be paid off in tandem around the United States, a new note issued and put up on our system consistent with the rules as promulgated by the Department of Education.

By the time this was done, it was a 60- to 120-day process, and frequently there's a great deal of hand-holding and communication back and forth between the students and our representatives.

We estimated that the costs of putting this in place were approximately twice as much as normal loan originations, somewhere in excess of $100 per loan, not counting some of the systems work we had to put in place, which was complex, and the advertising, which was very expensive.

At the end of about 2½ years, we consolidated about $390 million worth of loans. About two-thirds of those were loans that were not already on our books as a corporation, and only about half of that remainder were new borrowers.

So all of this expense, which is in the millions of dollars, actually found about $100 million worth of debtors who felt that it was essential that they undertake this process.

So it is quite costly, it is quite cumbersome, a lot of handholding because the student frequently doesn't know where their loan is now located, the banks have merged, the banks have sold the loans, there are communications problems. We wound up being almost social workers: Should I get married, and can I consolidate the debt of myself and my wife? On and on it went. Dates would get missed, and we'd have to start the process all over again.

I think it is a very worthy process. It is complex. My discussion is not to suggest that we shouldn't do it, but it has to be put in the perspective that institution or institutions whom you are asking to perform the tasks.

The Guaranteed Student Loan Program right now has about 50 guarantors, 50 sets of regulations, is subject to constant change, and the data processing systems and the procedures and papers of all of the lenders who are involved in the day-to-day program are made very complex and costly by constant change.

Anything that can be done to make the program simplified—either the existing program or consolidation—not only would be beneficial to the lenders and the students but could quite conceivably lower the costs of the program and enable you to lower the amount of appropriations, because you're paying for an awful lot of this duplication and redundancy.

Mr. **Gaydos**. I want to thank you for that explanation.

At first blush, it doesn't seem to be so complicated, but now I have a much clearer understanding.

I have no further questions, and I apologize for taking too much time, Mr. Chairman.

Mr. **Ford**. Thank you.

Mr. McKernan.

Mr. **McKernan**. Thank you, Mr. Chairman.

Mr. Lawlor, I'd like to follow up on the repayment issue.

One of the things that bothers me is the cost of servicing the loans in the out years. How would you feel about either a sliding scale or a reduction in the Federal subsidy for those loans as people start to earn more and more money?

Mr. **Lawlor**. Mr. McKernan, the issue of a sliding scale would help me a great deal as I begin a residency and training. My earliest income years are going to be quite low. I think my peers in their fifth and sixth years, which are one and two of residency right now, are making approximately $18,000 to $20,000.

I have a grace period, but it does begin, if I understand this correctly, during that residency training. So it would help me a great deal to start out with a lower payment plan early in the show.

Obviously, any reduced subsidy is going to harm me.

I recommend the subsidy because of the reasons I stated earlier. Philosophically, I think it is going to afford greater opportunity for the numbers out there.

I think there are a great number of students who are already discouraged from entering the profession.

As I said earlier, while I may be part of a certain population due to my income, part of the reason that I'm here today is because I was a member of a class of society that thought about going to medical school.

Mr. **McKernan**. Thank you.

I have no further questions, Mr. Chairman. Thank you.

Mr. **Ford**. Thank you.

Mr. Hayes.

Mr. **Hayes**. Thank you, Mr. Chairman.

I'm just amazed at the kind of testimony we've benefited by. I'm particularly impressed by your testimony, Mr. Lawlor, and I do hope that you will forward a copy of your testimony, with a covering letter, to Secretary of Education Bennett, so he can get the benefit of some of what you've said.

Mr. **Lawlor**. Thank you.

Mr. **Hayes**. I don't know. Your "sticktoitiveness" and effort to overcome what have been terrific personal family odds certainly catch my admiration, but understanding that this is not an admiration society, you might have given consideration to pursuing a different course.

You might have chosen, with your determination, to study to become an executive of General Dynamics, and you wouldn't have to worry about a debt of this sort under certain circumstances.

Or, on the other hand, you might have tax laws reformed to such an extent that it curved around you if you were an oil executive or a gas executive.

These are the kinds of things that disturb me about our uneven approach to the whole problem of education, which I see sincerely as the security of our Nation.

My bottom line question is—which I can ask anyone on the panel who cares to respond—How does a single parent, living on public assistance, as do some of my constituents, who is a member of a minority, who has a child who is on the verge of dropping out of high school, struggling trying to fight with the odds to stay there, and maybe they do finish high school, and has a desire to become a doctor in this country of ours—is it possible for someone in that category to accumulate a debt in the quest of education as a doctor of $150,000? How do you do it? Explain to me, so I can tell some of my constituents, will you?

Mr. MARTIN. Mr. Hayes, let me say that we are very concerned about exactly that issue that you raise. I guess it somewhat responds to, I think, the same question that Congressman Gaydos was raising.

The reason that it's so important that, during these reauthorization hearings, the Members look at the careful balance with grant programs and with employment programs and the kinds of subsidies we need, to avoid what I think is a real concern of all us, of people that are qualified, that are capable, that are going to make the kind of contribution that I think this young man is, and to come out and be facing that kind of a debt load.

As he indicated, he said, "in my certain circumstances," that's the reality he faces. The reason that he faces that and hundreds of other people face it is because there is no other alternative. His only choice is to go to school and borrow that $100,000 to get through.

If we had a set of programs that was more appropriately balanced to help a little more with a helping hand, with more grants and so on, and particularly at the graduate professional level, as well as the undergraduate, to help the kind of person that you're talking about, then it would be more manageable.

Nobody is afraid to reach out and do something for them, and clearly these people are doing that, and he's one of hundreds of thousands of people doing that.

But if we continue not to redress that balance and continue only with emphasis upon loans and so on, then the kind of individual that you just described or the fine gentleman that's sitting next to me are going to, I fear, give up and no longer take that advantage for that opportunity.

Mr. FOX. Just to expand on that for a moment, the decision was made legislatively a few years ago, particularly in medical education, to rely more heavily on loans than on grants.

You have the Health Education Assistance Loan Program under which you can borrow $20,000 a year, and, on top of that, you can compound and accrue interest.

This was exacerbated in the District by the loss of the capitation grants. So you have a situation here in the District of Columbia where a cost of medical education is perhaps higher than anywhere else in the United States—approaching $30,000 a year.

But, even beyond that, you have a number of students who are attending public and private institutions around the United States who accumulate debt of somewhere between $7,500 and $15,000 during the course of 4 to 8 years of education. That's a much more typical group of people.

But even now, we're beginning to see that there are a number of individuals who are unwilling to accept debt burdens of that type that are beyond their cultural ability to accept, of being hocked like that, coming from whatever environment they are in. So they are beginning to make career decisions predicated on debt burdens, on the availability of credit.

We have seen inflation that has almost tripled the cost of education in the last decade in many institutions, and there's increasing pressure because education is rising at twice the CPI right now and will probably continue to do so because it's a very people-intensive kind of thing. We haven't seen the benefits, either from grants or loans, increasing anywhere near that.

The result is that we get down to the two key words we have been talking about for 15 years—access and choice—and that to the extent that the package of aid available, whether from grant or from loan—and it's your decision as to how that gets managed or undertaken in this reauthorization—will determine if we will have an underclass that will not have the opportunity to have access and choice.

It doesn't have to be a $30,000-a-year medical school. It may be a $6,500-a-year public university. But unless there is a package that is available, that is directed to those of need, you will create a permanent underclass that will not have the opportunity to attend the institution of their choice and to have that upward mobility.

Mr. HAYES. I'm not sure that that isn't the purpose of some of the proposals.

Let me ask this pointed question, which is a bottom line question with me.

Do you agree with the proposals now being advanced by the Administration in respect to the changes in the funding level for higher education?

Mr. MARTIN. I can say, categorically, we totally have opposed those reductions and changes. I think that they simply are not warranted. In fact, we've seen decline in terms of student aid funding just because of inflation since 1980, Mr. Hayes, and we're concerned about that, and we think we are seeing an erosion of needs-based student assistance for students in terms of providing equal educational opportunity.

Ms. FROHLICHER. No; on behalf of the National Council, we certainly do not support the proposed changes, either legislative or budgetary, that the administration has proposed to the Guaranteed Student Loan Program. We have great concerns that a number of the proposals that have been made as part of the budget exercise would cripple or kill the program.

In response to your earlier question, Mr. Hayes, I think, even though the National Council is strictly involved in the guaranteed student loan side of the student aid package, it's important to let you know and the rest of the subcommittee that when we adopted our policy paper on reauthorization, the No. 1 policy position taken by the National Council of Higher Education Loan Programs was a strong support of an adequate balance between grants and loan assistance.

We strongly support both what Mr. Martin and Mr. Fox said about the necessity for the committee to derive a package that not only provides access and choice but it provides balance between the grant side and the loan side so students can go to school.

Mr. HAYES. Mr. Chairman, I yield to my colleague from Pennsylvania.

Mr. GAYDOS. I want to thank my colleague for yielding.

Let me ask the panel, have you been concerned, or do you think there is authentically reason to be concerned, about the proposition that has been bantered about publicly because of the very bad situations of our savings and loans on a national basis—you are familiar with it—going out of business and running into trouble, that they are resorting, through a high publicity program, to an attempt to bail them out of their precarious financial situation.

They are resorting to student loans through a publicity program, trying to get as many as they can, and hopefully to save their banking institutions, and that's their primary concern.

Is there authenticity to that accusation, and, if so, is it justified? Because I have great concern about the somewhat flamboyant attitude: Extend the loan, make more interest available.

Every time you extend and consolidate, remember, somebody gets hurt; somebody has got to pay those costs. Then you hear these accusations in certain circles that this is what is going on.

Probably my question is—and I'm very clumsy in presenting it—No. 1, is it going on? and, No. 2, do you have any fear as to the effects of such a grand scale contrived type of operation on the part of S&Ls?

Mr. FOX. Comments were made earlier today about the fact that the student loan programs and your discussions here before an education subcommittee really can't be held in a vacuum, because there are great changes being incurred within not only the thrifts but the entire banking industry.

We're in a revolutionary environment, and we're also in a period where there's a lot of weakness within individual institutions within our financial system.

Newspapers are constantly reporting about the number of S&L's that are technically insolvent. We've seen a number of examples of that recently. I think seven banks and savings institutions were closed in 1 day last week, which I guess is the worst situation we've had of that type since the Depression; and there have been some very large institutions that have gone under.

One of the things that has happened in banking in the last 4 or 5 years has been the deregulation of the liability side of the banks.

That means that they are now being obligated to compete for funds in the deposits, in the jumbo CD's, and the ways in which they raise funds, and they are paying market rates, variable rates in many cases.

The result is that the cost of banking has gone up to a lot of institutions, but they are now undertaking variable types of liabilities as they use money market funds, as they use other different types of deposit accumulations that are variable.

There has been very little deregulation of the asset side of the banks. What you hear the banks, the S&L's, the insurance industry, and everybody else competing for is the right to get into everybody else's business. The banks want to get into insurance, S&L's want to get into commercial lending and the like, because they have been forced to bear the costs associated with deregulation on their cost of funds. They want to be able to manage the use of funds to the maximum. So they are out searching for new ways in which to do business.

One of the very few instruments that was available, that was variable rate for many years, was the student loan, and although it was a lesser yield—as we'll get into, I guess, in the next panel—than many other types of instalment credit, the fact that it was variable and had characteristics that were similar to the characteristics of their liabilities made it very attractive, because a known spread, a positive spread, could be created.

In years past, there wasn't an available source of capital that assured that every student who was deserving of a loan could get one and got one. So there was a vacuum, and many institutions jumped into that vacuum because it matched their banking strategy of having a variable rate asset with a variable rate liability, and also it gave them many opportunities from a banking point of view to get new customers and to get loans on their books.

The long answer is the one I just gave. The short answer is yes, a small number of larger savings institutions have become very aggressive participants in the program.

I think that, by and large, they've done it reasonably consistent with the law. They're taking a slightly lesser yield on this guaranteed asset than they might have undertaken in, say, other types of consumer lending. It's a relatively safe loan. It's not prejudicing their balance sheet.

The one risk is whether they have the servicing capacity, as they've accumulated these very large portfolios, to manage effectively the collection effort, which has really been the Achilles of this thing.

I have not seen any example of any of these S&L's harming themselves, or mutual savings banks in the Northeast who have been very big participants for many years. I've not seen evidence that they have harmed themselves or their institutions by getting into this program. They have made the program more competitive; they've made more capital available in their States; and I think, on balance, they've assured that students have had access to student credit, where 10 years ago that wasn't the case.

Mr. GAYDOS. I want to thank you for a very clear explanation.

Getting down to the heart of the matter then, are you telling the committee that the, say, accelerated participation and interest of savings and loans is good for the overall loan program?

I'm not too worried about them harming themselves; I'm worried about them harming the program, if that's a possibility.

Mr. FOX. To the extent that a regulated financial institution expands their lending in a way that's consistent with Federal law and regulation, it can only be beneficial to the program in making capital available.

Mr. GAYDOS. In other words, it's good.

Mr. FOX. There are laws that limit the percentage they can put their assets into student loans. No bank has come close to it. In the old days, most institutions had less than one-half of 1 percent of their footings in student loans. Today, you might see 5 or 7 percent in a student loan portfolio in a major savings institution or a small local bank. But I've not seen any egregious abuses of the program. I've only seen more capital made available as these institutions compete with each other to make capital available.

Mr. GAYDOS. The reason I ask is, there's a good possibility, with their added activity, that there might be another proposal in line that would utilize their interest and their activity to a better extent and for the ultimate beneficial purposes of the lendee—the borrower.

Mr. FOX. One last point. There have been a number of institutions that have required either FDIC or FSLIC assistance or have been merged in the last couple of years, where those institutions had student loan portfolios, but the Federal and State regulators, working with the State agencies and working with Sallie Mae, have been able to work out the acquisition of those portfolios in such a way that there was no harm whatsoever to the student borrower.

Mr. GAYDOS. Thank you, and I want to thank my colleague for yielding.

Mr. HAYES. Thank you, Mr. Chairman. I appreciate your tolerance. I've extended beyond my time.

Mr. FORD. Thank you.

I would only observe that in the late 1970's we were very concerned about access to guaranteed student loans, and we were looking at all sorts of strategies to get people into the business.

For a long, long time, thrift institutions demonstrated, except in a very spotty way around the country, very little interest in finding out anything about the Guaranteed Student Loan Program and participating in it.

Their interest came up considerably with the passage of the Middle Income Student Assistance Act in 1978. For my own part, Joe, in Michigan, I made it a crusade to go after the savings and loan people and ask them why they weren't doing their share by putting some of their money into capital for these loans.

As a matter of fact, they are quite proud to show me that they have increased. Michigan is not one of the States that has any of the problems that you have been reading about, because we don't have any savings and loans in the State that would not be covered by the Federal Government.

But their interest perked up probably about 5 or 6 years ago, and they are quite proud now when they meet with us to tell us how much they are committing to it, and there isn't any question, it's been good for them, because 5 or 6 years ago they also realized that they were stuck with long-term low-interest obligations in a period when interest looked like it had no limit, when it was going up.

The savings and loan charters were expanded to let them get into consumer lending of one kind or another. They not only expanded their efforts with respect to guaranteed student loans but with other kinds of consumer loans that traditionally they hadn't been very interested in.

In fact, it's more than tradition until fairly recent years they couldn't get into those fields. It was only 15 years ago that we would permit a savings and loan association to make a loan on what we, in those days, called a house trailer or mobile home. That was actually initiated by the Mobile Home Builders Association when they were in a tough spot.

Little by little, there has been a constant battle between the traditional banks and savings and loans, and the savings and loans have expanded their ability. They currently, I believe, are asking for legislation to have full checking account privileges, which the other bankers, understandably, are not very enthusiastic about.

But, actually, I think there is some evidence, Joe, that their participation caused other people to participate. We have more credit unions granting guaranteed student loans than ever before, and credit unions just weren't interested.

In part, it was perception. Until the passage of the Middle Income Student Assistance Act, they wrongfully in many cases, but rightfully in many cases, assumed that the constituency of their institution was not going to be served by this program. So they weren't particularly interested in having in their portfolio funds being loaned out to people who were not then or likely to become participants in their institution.

The savings and loan people were matched almost, but not in volume, in enthusiasm by the credit unions, who began to realize that their credit union membership could turn to their own credit union for a guaranteed student loan.

I have joked—and they don't like it too much—that the banks quit giving away electric blankets and toasters and started advertising the guaranteed student loans.

They have discovered in many instances, particularly in small communities where the bankers never heard of programs like this, that they had a constituency in that community that was favorably impressed by their willingness to make these loans available.

It has worked quite well for us, and I share the gentleman from Pennsylvania's concern that if the—I hope—extraordinary circumstances that have overtaken Ohio, and Maryland, and some other spots in the country continue, we will watch very carefully to make sure that we don't leave any opportunity for the student borrowers or the guaranty agencies, for that matter, to suffer as a result of what might be panic changes in portfolios.

I strongly suspect that the Federally-regulated savings and loan associations are still quite limited in how much of their portfolio can be invested in this type paper, and that remains a cap, if you will, that will continue to keep them from suddenly turning all their available mortgage money into guaranteed student loans, so that, "We'll help you get through school, but we won't let you have any help to buy a home," would be the result, because they were, after all, chartered originally in the days coming out of the Great Depression for that specific purpose.

Mr. GAYDOS. Mr. Chairman.

Mr. FORD. Yes.

Mr. **Gaydos**. I'd like to refer—and I remember quite vividly——

Mr. **Ford**. Joe, that's the last time you'll ever hear me defending bankers of any kind. [Laughter.]

Mr. **Gaydos**. I remember quite vividly—it's very clear—when the present chairman did take that task upon himself. It was a lonely battle at that time. I remember, the same way that he took on the obligation, and I joined him at that time—this is many years back—in increasing the limitation as far as the availability of some aid, when we used to have it down around a figure of $12,000 or $15,000 in the early years. He fought that lonely battle, too.

That was one of the reasons I asked the question. I know the concern of the chairman and the committee in some instances many, many years ago when the loans first became available. The concept was new, and it was a very difficult task to interest our lending institutions. They had other things to do where the returns were much more substantial and more guaranteed.

Mr. **Ford**. Mr. Henry.

Mr. **Henry**. No questions, Mr. Chairman.

Mr. **Ford**. Thank you.

Thank you very much to the panel for your preparation.

Let me say to you, Dan, that I appreciated your modest reaction to the comments that were directed at you, but, as a matter of fact, I think you represent to me more closely my idea of what the typical student is motivated by than the ones we are reading about all the time.

I wish that we had more of the media who frequently write quite cavalierly about people who get Federal aid and student loans, and don't care, and don't have any idea why they're getting it, and don't place very much value on it, to have a chance to talk to people like you.

I talked to the dean of the law school over at your school last night informally, who tells me that the law students are graduating from there with an average debt of $40,000.

As a lawyer, I know we don't make the kind of money out of school that doctors can expect to make, but he mentioned the $150,000 figure with that institution, where now the tuition in medical school is $21,000 a year and the tuition in law school is $9,000 a year, and we have people talking about $8,000 making it possible for you to buy sportscars and stereos and go to Florida, and live off the fat of the land without ever paying it back.

You have to talk to people like that once in a while to begin to get a grasp of what it really costs now to procure a first-class education in this country, not to suggest that a first-class education can only be obtained at a Georgetown.

Thank you very much.

Mr. **Ford**. The next panel will be Mr. Carl Donovan, president of the Student Loan Guaranty Association; Mr. Robert Davis, chairman of the student loan committee, and senior vice president of Union Trust Co. of Maryland; and—not so fast, Fox—Mr. Edward Fox, president of the Student Loan Marketing Association. We want you on the next subject here, too.

Your statements will be included in the record immediately preceding your comments, as each of you make them, and we'll start first with Mr. Donovan.

STATEMENTS OF CARL DONOVAN, PRESIDENT, STUDENT LOAN GUARANTY ASSOCIATION; ROBERT DAVIS, CHAIRMAN, STUDENT LOAN COMMITTEE, AND SENIOR VICE PRESIDENT, UNION TRUST CO. OF MARYLAND, ACCOMPANIED BY BENJAMIN A. LeBORYS, VICE PRESIDENT, CONSUMER LOAN DIVISION, UNION TRUST CO. OF MARYLAND; AND EDWARD FOX, PRESIDENT, STUDENT LOAN MARKETING ASSOCIATION, A PANEL

Mr. DONOVAN. Chairman Ford, members of the committee, my name is Carl Donovan. I'm president of the Washington Student Loan Guaranty Association, a nonprofit guaranty agency serving the State of Washington.

I'm pleased to be before you today to share with you some of my agency's experiences with the multiple disbursement of student loans.

My comments will pertain to provisions in the Higher Education Act which encourage lenders to disburse individual student loans on a multiple instalment basis two to three times throughout the school year rather than on a lump-sum basis at the beginning of the school year.

The act provides a monetary incentive for lenders to do this by permitting additional float on the undisbursed portions of the loans.

By way of background, for the last 4 years, the Washington Guaranty Agency has actively encouraged multiple disbursement and has offered escrow services for lenders who wish to disburse on a multiple basis but are unable to do so.

We have had a great deal of success with multiple disbursement in Washington both in terms of making certain that funds are used in the way they are intended and in holding down default losses.

Based on our experience and the positive reaction from both schools and lenders, we are planning to require that all loans carrying our guaranty be disbursed on a multiple basis beginning with the 1987 school year.

We are well along the way to achieving that goal of the $120 million in guaranteed student loans made in Washington per year, $90 million is already disbursed on a multiple basis.

The administration has proposed requiring that all loans be disbursed on a multiple basis but that the special allowance paid to lenders to cover their costs be eliminated.

I would like to address two questions this morning which deal directly with the administration's proposals and are at the heart of the issue in reauthorizing multiple disbursements.

One of the question is, are the benefits of multiple disbursement desirable enough to require it of all loans? The second question is, should the added cost to lenders continue to be defrayed?

First of all, are the benefits of multiple disbursement desirable enough to require it? We found five very significant benefits of multiple disbursements.

First, students incur less debt. Five percent of the borrowers under our escrow system received less than the full amount of the original principal because of an early withdrawal from school. The average amount actually borrowed by these students for 1 year, as a result of partial cancellations, decreased by 37 percent from $2,700 to $1,700.

Second, loan proceeds are budgeted more wisely by students, and students are better able to meet expenses toward the end of the school year.

We have found that multiple disbursement has almost eliminated the recurring problem faced by students in meeting spring term tuition and other expenses. With multiple disbursements, students aren't faced with the nearly impossible task of budgeting a $2,500 loan over a 9-month period.

Third, loan proceeds are more likely to be used for direct education expenses. If the student withdraws midyear, the undisbursed portion of the GSL is recaptured and is not available to be used for expenses completely unrelated to education.

Furthermore, even for loans that are fully disbursed, a higher proportion of the loan proceeds is posted to tuition. Schools are able to apply loans to tuition each term under a multiple disbursement system, where they are restricted only to fall term under a single disbursement system.

Fourth, interest benefits and default payments are reduced as a result of the decreased indebtedness. An analysis of our records shows that the Federal special allowance and interest subsidy payments on loans under our escrow system are 2 percent less than they otherwise would have been and that default reinsurance is reduced by 5 percent.

Last and perhaps most importantly, the multiple disbursement system reduces the negative impact of program abuse. During the course of a recent program review of a Seattle-based trade school, we found that 54 percent of the school's GSL recipients withdrew from school before completion of the school year. Unfortunately, that school's loans were disbursed on a lump sum basis, and many of its students dropped owing the full amount of their original loan principal.

If the loans to this school's students had been disbursed on a multiple basis, we could have substantially reduced the individual student indebtedness, Federal interest and default payments, and provided an incentive for the school to strengthen its retention efforts.

In answer to the first question then, I believe that multiple disbursements should be required.

The second question, should the added cost to lenders continue to be defrayed as it is in current law? This question can be answered by examining the additional workload required to disburse the loan on a multiple basis.

First of all, there is a normally expected cost of producing and mailing two to three checks rather than one and processing twice as many loan cancellations as a result of midyear withdrawals.

Beyond these more obvious workload increases, however, there are other less visible, very time-consuming processing requirements.

First, outstanding disbursements must be scheduled and monitored for a large number of schools, each with their own start dates.

In Washington, there are 113 schools operating on quarter, semester, and trimester calendars. Our disbursement schedule is timed so that the check arrives at the school 2 weeks prior to the start of each term in order to coincide with the student's requirements to pay for tuition, books, and supplies.

Tracking all upcoming disbursements is a monumental task which requires a high degree of automation. This tracking requirement is magnified manyfold when out-of-State schools are considered.

Second, multiple disbursement involves a much more complicated system of guaranty fee calculation. Each loan is divided into two or three individual subloans with differing interim periods and differing fee charges.

The process of calculating and disclosing the guaranty fee is labor intensive and very error prone. We have seen up to a 75-percent error rate on the manual completion of multiple disbursement promissory notes. For this reason, we discourage the manual adjustment of disclosure information and prefer to have it done automated.

Third, a time-consuming followup system is required on students who drop out or change schools midyear. Most transfers require borrower location efforts and, if the cost of attendance changes—which it does, frankly, in most of the cases—the submittal of a supplemental application by the student, a recalculation of eligibility, and an adjustment of the loan amount.

All of these additional tasks result in added costs of at least $30 per loan, or roughly a 50-percent increase in the average cost of booking the loan.

In light of the high cost of multiple disbursement, it is certain that lenders would not voluntarily disburse loans on a multiple basis without some reimbursement. If forced to do so, many lenders would undoubtedly reduce their commitments to the program.

In answer then to the second question, I believe costs should continue to be defrayed.

In conclusion, as indebtedness and its default-related costs continue to increase in the future, we will see more need to exercise control over disbursement.

I'm convinced that the desirable aspects of the multiple disbursement of student loans far outweigh the costs of supporting multiple disbursements. I urge the subcommittee, in its examination of the package of subsidies in the GSL Program, to place a high priority on retaining and strengthening the multiple disbursement provisions. They serve as a very valuable incentive to support what is, in my opinion, one of the most effective control features of the GSL Program.

Thank you for letting me speak to you this morning. I'd be happy to answer questions.

[The prepared statement of Carl C. Donovan follows:]

PREPARED STATEMENT OF CARL C. DONOVAN, PRESIDENT, WASHINGTON STUDENT LOAN GUARANTY ASSOCIATION

Chairman Ford, Members of the Committee, my name is Carl Donovan. I am President of the Washington Student Loan Guaranty Association, a non-profit guaranty agency serving the State of Washington. I am pleased to be before you this morning to share with you some of my agency's experience with the multiple disbursement of student loans.

For the last four years we have actively encouraged multiple disbursement and have offered escrow services for lenders who wish to disburse on a multiple basis but are unable to do so. We have had a great deal of success with multiple disbursement in Washington, both in terms of making certain that funds are used in the way they are intended, and in holding down default losses.

The Washington guaranty agency is committed to the multiple disbursement of student loans. Based on our experience and the positive reaction from both schools and lenders, we are planning to require that all loans carrying our guarantee be disbursed on a multiple basis, beginning with the 1987 school year. We are well along the way to achieving that goal. Of the $120 million in guaranteed student loans made in Washington per year, $90 million is disbursed on a multiple basis. Fifty percent of these are disbursed through our escrow system.

The Administration has proposed requiring that all loans be disbursed on a multiple basis, but that the Special Allowance paid to lenders to cover their costs be eliminated.

I would like to address three questions this moring which deal directly with the Administration's proposals and are at the heart of the issue in reauthorizing multiple disbursement:

(1) Are the benefits of multiple disbursement desirable enough to require for all loans?

(2) Should the added costs to lenders continue to be defrayed?

(3) Should guarantors continue to be relied on, by law, to provide escrow services for lenders?

(1) Are the benefits of multiple disbursement desirable enough to require of all loans?

We found five very significant benefits of multiple disbursement:

(a) Students incur less debt. Five percent of the borrowers under our escrow system received less than the full amount of the original principal because of an early withdrawal from school. The average amount actually borrowed by these students for the year, as a result of partial cancellations, decreased by 37% from $2700 to $1700.

(b) Loan proceeds are budgeted more wisely, and students are better able to meet expenses toward the end of the school year. Multiple disbursement has almost eliminated the recurring problem faced by students in meeting spring term tuition and other expenses. With multiple disbursement, students are not faced with the almost impossible task of budgeting a $2,500 loan over a nine month period.

(c) Loan proceeds are more likely to be used for direct education expenses. The majority of schools in Washington State post each loan payment to tuition before disbursing the remainder to the student. They are able to do this each term under a multiple disbursement system, whereas they are restricted only to fall term under a single disbursement system. Furthermore, if the student withdraws mid-year, the undisbursed portion of the GSL is recaptured and is not available to be used for expenses completely unrelated to education.

(d) Interest benefits and default payments are reduced as a result of the decreased indebtedness. An analysis of our records shows that federal special allowance and interest subsidy payments on loans under our escrow system are 2 percent less than they otherwise would have been, and default reinsurance is reduced by 5 percent.

(e) Lastly, and perhaps most importantly, the multiple disbursement system reduces the negative impact of program abuse. During the course of a recent program review of a Seattle-based trade school, we found that 54% of the school's GSL recipients withdrew from school before completion of the multiple disbursement cycle. Unfortunately, the school's loans were disbursed on a lump sum basis, and many of its students dropped out owing the full amount of their original loan principal. If the loans to the school's students had been disbursed on a multiple basis, we could have substantially reduced individual student indebtedness, federal interest payments and default payments, and provided an incentive to the school to strengthen its retention efforts.

(2) Should the added costs to lenders continue to be defrayed?

This question can be answered by examining the additional workload required to disburse a loan on a multiple basis. First of all, there is the normally expected cost of producing and mailing two to three checks rather than one, and processing twice as many loan cancellations as a result of mid-year withdrawals. Beyond these more obvious workload increases, there is an additional number of less visible, time-consuming processing requirements:

Outstanding disbursements must be scheduled and monitored for a large number of schools, each with their own start dates. In Washington, there are 113 schools operating on quarter, semester and trimester calendars. Our disbursement schedule is timed so that the check arrives at the school two weeks prior to the start of each term in order to coincide with the student's requirement to pay for tuition, books and supplies. Tracking all upcoming disbursements is a monumental task which requires a high degree of automation. This tracking requirement is magnified manyfold when out-of-state schools are considered.

Multiple disbursement involves a much more complicated system of guarantee fee calculation. Each loan is divided into two or three individual subloans with differing interim periods and differing fee charges. The process of calculating and disclosing the guarantee fee is very error prone. We have seen up to a 75% error rate on the manual completion of multiple disbursement promissory notes.

A time consuming follow-up system is required on students who drop out or change schools mid-year. Most transfers require borrower location efforts, and, if the cost of attendance changes, the submittal of a supplemental application by the student, a recalculation of eligibility and an adjustment of the loan amount.

All of these additional tasks result in added costs of at least $30 per loan, or roughly a 50% increase in the average cost of multiple disbursement, it is certain that lenders would not voluntarily disburse loans on a multiple basis without reimbursement. If forced to do so, lenders will reduce or withdraw their commitments to the program.

(3) Should guarantors continue to be relied on, by law, to provide escrow services for lenders?

Regardless of the yield on multiple disbursed loans, many lenders simply do not want to take on the problems of disbursing a student loan in multiple installments. They have other competing needs that have a higher priority on resources. This is evident from the heavy usage of our escrow services. We have determined in Washinton that in order to require multiple disbursements state-wide and not jeopardize loan access, we must offer lenders a backup escrow system.

In conclusion, I am convinced that the desirable aspects of the multiple disbursement of student loans far outweigh the cost of supporting multiple disbursements. I urge the Subcommittee, in its examination of the package of subsidies in the GSL program—Special Allowance, ACA, etc.—to place a high priority on retaining the multiple disbursement provisions. They serve as a very valuable incentive to support what is, in my opinion, an essential feature of the GSL program.

Mr. FORD. Thank you very much.

Mr. Davis.

Mr. DAVIS. Mr. Chairman and members of the Subcommittee on Postsecondary Education, thank you for the opportunity to testify today on the Guaranteed Student Loan Program on behalf of the Consumer Bankers Association.

I am Robert J. Davis, Jr., a senior vice president with Union Trust Bank of Baltimore, MD. I also serve as chairman of the student loan committee of the Consumer Bankers Association.

I am accompanied today by my colleague, Benjamin A LeBorys, vice president in charge of student loan operations.

My testimony today reflects the views of the Consumer Bankers Association on reauthorization of the Higher Education Act.

We have been asked to address three subjects in our testimony: The appropriate Federal subsidy on GSL's, the issue of copayable multiple disbursement of loans, and loan consolidation.

At the outset, let me observe that the first two of these issues are closely related in that the Federal subsidies which support the Guaranteed Student Loan Program operate to offset the expenses associated with making loan capital available.

One of the most significant expenses involved in making GSL's is the loan origination process. The proposal to require multiple disbursement of loans, therefore, has the effect of reducing the subsidy in the program.

In approaching the issue of subsidies, it is important to note that the Federal subsidy paid on GSL's is an essential part of the program. Without these subsidies, it is highly doubtful that lenders would make capital available to student borrowers at anything approaching the current rate of interest.

The primary beneficiary of the subsidies in the GSL Program is the student. Both in the in-school interest subsidy and the special allowance correspond to interest which the borrower would otherwise be required to pay in order to find a lender willing to make a GSL.

A third subsidy in the GSL Program is the Federal guaranty on GSL's made available through State guaranty agencies and other guaranty entities. I will not discuss this area of subsidy except to say that, without federally backed reinsurance, the true interest rate on GSL's would, of necessity, have to be considerably higher than the current true interest rate on GSL's which is 3.5 percent higher than the 90-day T-Bill.

In this sense, the Federal guaranty that the current reinsurance program will remain in effect on GSL's should be viewed as being at least as important a subsidy as the in-school interest subsidy or the special allowance.

In recent months, the administration has challenged the basic assumption that the existing subsidies in the GSL Program correspond to costs incurred by lenders in making loan capital available to students. They have suggested that the total return to lenders on GSL exceed the amount necessary to encourage them to participate in the program.

Specifically, the administration has proposed in its most recent agreement with the Senate that the special allowance would be cut by three-tenths of 1 percent with 30 basis points without jeopardizing the availability of loan capital to students.

The Consumer Bankers Association challenges the administration's assertions. Our statistics show that the return on student loans is modest when compared to other consumer lending products.

I have no doubt that the reduction in the special allowance will lead to many lenders reducing the amount of capital they invest in the program. It has taken over 10 years to configure the Student Loan Program so that it is attractive to lenders. Prior to this time, many lenders restricted their commitments because return did not warrant active participation.

If a reversal in the Government's attitude takes place, the losers, as in the past, will be the students, particularly those students from disadvantaged economic backgrounds or who are enrolled in educational programs of short duration.

It is important to note that, under the current program, one is hard pressed to identify a single area of the country where access to students is a problem. This is, without a doubt, due to the fact that the existing program makes participation for lenders, even the smallest lenders, possible.

Although the subject of debt burden is not before us today, I would like to comment on the occasional proposal to shift more of the interest burden to the student. These proposals should be closely examined so that they do not cause students unmanageable debt burdens.

So as the committee faces the question of subsidies in the program, Mr. Chairman, three choices are before you.

One, cut the special allowance, thereby reducing the return to lenders without raising the interest rate paid by students. This option, I assure you, results in the lenders reducing their commitments to the program in direct ratio to the depth of the special allowance cut adopted.

Two, cut or reduce the in-school interest subsidy or special allowance by raising the student's interest rate to maintain return to lenders while reducing the Federal cost of the program. While this may be a possibility, additional testimony might be obtained as to its impact on the default rate.

Three, maintain the current structure of the program, including the subsidies on loans. This option represents the route taken since 1979. Since that year, student access to capital has increased almost on an annual basis to the point where we are close to being able to say that every eligible student can be assured of finding a lender.

I would now like to turn to the second subject of today's hearing, copayable multiple disbursement of loans.

As you know from CBA's submission of legislative recommendations to you and Mr. Coleman, we support the co-payable multiple disbursement of loans. At Union Trust Bank, we have already instituted this method. If our experience over the past several years is any indication of what can be expected for the national implementation of co-payable multiple disbursement, hundreds of millions of dollars could be saved through this legislative change.

In considering enacting copayable multiple disbursement, the Congress should be aware that the administrative costs that are incurred by lenders increase significantly. The computer software necessary to implement this method, for example, is not available as an off-the-shelf commercial product. This means that the software must be developed by the lender at a sizable cost.

For smaller lenders whose capital expenditures are spread over a smaller portfolio, these costs are relatively greater. For these institutions, copayable multiple disbursement represents a major administrative change in the program, significantly altering the economics of their participation.

I would also like to observe that this method of disbursement entails many other costs in addition to computer software. Many of the administrative steps inherent in originating a loan must be repeated as a result of this requirement.

Verifying the enrollment status of a student and issuing an additional check and getting it to the student are examples.

Mr. Chairman, implementing copayable multiple disbursements is not something that most lenders will be able to accomplish in 1 or 2 months. To set up and test the necessary computer programs and administrative procedures, at least 5 or 6 months should be provided. If a shorter lead time is legislated, I would anticipate some of the lenders would be forced to temporarily stop making loans while their system was implemented.

The additional administrative costs associated with copayable multiple disbursement would reduce the yield on the average GSL lender by 20 basis points. The Consumer Bankers Association has endorsed this disbursement method as part of its recommendations submitted to you on April 30.

Coupling this change with a three-tenths percent, or 30 basis point, reduction in the special allowance, however, would have a devastating effect on lenders. Our analysis shows that the typical return on GSL's would be reduced by four-tenths to seventh-tenths percent, not including the additional expense of accounting for the portion of the loans on which the Government would not pay interest and special allowance.

I would like now to briefly turn to the issue of loan consolidation.

As you know, Mr. Chairman, the CBA supports the enactment of the Loan Consolidation Program. We believe that the loan consolidation is important as a default prevention mechanism for high-indebtedness GSL borrowers.

We believe strongly that the lender participation in the loan consolidation should include any commercial lender holding one or more of the applicant's individual student loans. We stand ready to assist the subcommittee in drafting the legislative provisions of a Loan Consolidation Program.

In closing, I would remind the committee that, since there is a multiplier effect for every dollar spent by the Federal Government, this makes the GSL Program the most successful and efficient form of Federal student financial assistance.

In light of the importance of this program to millions of students each year, I believe the continuation of current subsidies in the program to be a bargain.

I would be happy to respond to any questions of members of the subcommittee and also personally invite any member of the subcommittee or staff over to Baltimore to see how our operations take place in processing student loans. We're very proud of our mechanism. Within the last 4 years, we have built a portfolio from $7 to $135 million, and the man to my right is the one who has pioneered and developed the operations capability that we are so proud of.

Thank you very much.

[The prepared statement of Robert J. Davis, Jr., follows:]

PREPARED STATEMENT OF ROBERT J. DAVIS, JR., SENIOR VICE PRESIDENT, UNION TRUST BANK, ON BEHALF OF THE CONSUMER BANKERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee on Postsecondary Education. Thank you for the opportunity to testify today on the Guaranteed Student Loan Program (GSLP) on behalf of the Consumer Bankers Association (CBA). I am Robert J. Davis, Jr., Senior Vice President with Union Trust Bank of Baltimore, Maryland. I also serve as Chairman of the Student Loan Committee of the Consumer Bankers Association. My testimony today reflects the views of CBA on the reauthorization of the Higher Education Act.

We have been asked today to address three subjects in our testimony, the appropriate federal subsidy on GSLs, the issue of copayable multiple disbursement of loans and loan consolidation. At the outset, let me observe that the first two of these issues are closely related in that the federal subsidies which support the Guaranteed Student Loan program operate to offset the expenses associated with making loan capital available. One of the most significant expenses involved in making GSLs is the loan origination process. The proposal to require the multiple-disbursement of loans, therefore, has the effect of reducing the subsidy in the program.

SUBSIDIES

In approaching the issue of subsidies, it is important to note that the federal subsidy paid on GSLs is an essential part of the program. Without these subsidies, it is highly doubtful that lenders would make capital available to student borrowers at anything approaching the current rate of interest. The primary beneficiary of the subsidies in the GSL program is the student. Both the in-school interest subsidy and the special allowance correspond to interest which the borrower would otherwise be required to pay in order to find a lender willing to make a GSL.

A third subsidy in the GSL program is the federal guarantee on GSLs made available through the State Guaranty Agencies and other guaranty entities. I will not discuss this area of subsidy except to say that without federally backed reinsurance the true interest rate of GSLs would of necessity have to be considerably higher than the current true interest rate on GSLs, which is 3.5 percent higher than the 91-day Treasury bill. In this sense, the federal guarantee that the current reinsurance program will remain in effect on GSLs should be viewed as being at least as important a subsidy as the in-school interest subsidy or the special allowance.

In recent months, the Administration has challenged the basic assumption that the existing subsidies in the GSL program correspond to the costs incurred by lenders in making loan capital available to students. They have suggested that the total return to lenders on GSLs exceeds the amount necessary to encourage them to participate in the program. Specifically, the Administration has proposed in its most recent agreement with the Senate that the special allowance could be cut by .3 percent (30 basis points) without jeopardizing the availability of loan capital to students.

The Consumer Bankers Association challenges the Administration's assertions. Our statistics show that the return on student loans is modest when compared to other consumer lending products.

Over a four-year period, peer group comparisons within the membership of the CBA have shown that student loan return on assets are 10-20 basis points less than other loan products after losses. The 175 lenders in the survey are all relatively large financial institutions having one to three billion dollars in assets. Many GSL lenders, however, are smaller institutions whose administrative capabilities are less than those of Union Trust or other larger lenders. Because the return on GSLs is dependent to a large extent on the efficiency with which loans are originated and serviced, lenders with limited computer support have lower returns on GSLs. We estimate, Mr. Chairman, that such institutions have returns of anywhere from .45 percent to .60 percent.

It is with these statistics in mind that the proposal of the Administration to reduce the special allowance must be considered. A reduction of .30 percent in the special allowance, for instance, would not cause many lenders actually to lose money on GSLs. Lenders, however, would be faced with the difficult decision of whether or not to continue making GSLs, or whether to invest in other consumer loan products which would be more profitable.

I have no doubt that the reduction in the special allowance will lead to many lenders reducing the amount of capital they invest in the program. It has taken over 10 years to configure the student loan program so that it is attractive to lenders. Prior to this time, many lenders restricted their commitments because return on assets did not warrant active participation. If a reversal in the government's attitude takes place, the losers as in the past, will be the students, particularly those students who are from disadvantaged economic backgrounds or who are enrolled in educational programs of short duration. It is important to note that under the current program, one is hard pressed to identify a single area of the country where access to student loans is a problem. This is without a doubt due to the fact that the existing program makes participation for lenders—even the smallest lenders—possible.

Although the subject of debt burden is not before us today, I would like to comment on the occasional proposal to shift more of the interest burden to the student. These proposals should be closely examined so that they do not cause students unmanageable debt burdens. This shift could result in higher defaults as well as students deciding not to pursue the education of their choice and probably earning less in their working careers and paying less in taxes.

So as the Committee faces the question of subsidies in the program, Mr. Chairman, three choices are before you:

(1) Cut the special allowance, thereby reducing the return to lenders, without raising the interest rate paid by students. This option, I assure you, results in lenders

reducing their commitments to the program in direct ratio to the depth of the special allowance cut adopted.

(2) Cut or reduce the in-school interest subsidy or special allowance by raising the student's interest rate, to maintain return to lenders while reducing the federal cost of the program. While this is a possibility, additional testimony might be obtained as to its impact on the default rate.

(3) Maintain the current structure of the program, including the subsidies on loans. This option represents the road taken since 1979. Since that year, student access to loan capital has increased, almost on an annual basis, to the point where we are close to being able to say that every eligible student can be assured of finding a lender.

COPAYABLE MULTIPLE DISBURSEMENT

I would now like to turn to the second subject of today's hearing, co-payable multiple disbursement of loans.

As you know from CBA's submission of legislative recommendations to you and Mr. Coleman, we support the co-payable multiple disbursement of loans. At Union Trust, we have already instituted this method. If our experience, over the past several years, is any indication of what can be expected through the national implementation of co-payable multiple disbursement, hundreds of millions of dollars could be saved through this legislative change.

At Union Trust, we disbursed $12,400,000 in second checks to over 10,000 borrowers in January of this year. Of this amount, approximately $1,400,000, or 11.3 percent, was returned because of student drop-out, and last year, 13 percent of our second checks were returned. Actual experience shows that if this $1.4 million were not recovered, a sizable portion of it would be lost to defaults. As you know, Mr. Chairman, statistically, student loans made to students who do not complete their educational programs have the highest percent rate of default.

Nationally, new student loan originations exceed $7 billion each year with most of the proceeds distributed by lenders on a single payment basis. Assuming that other lenders would have experiences similar to ours, each check run of $1,000,000 would result in savings of about $54,800, with co-payable multiple disbursement. This would translate into $380 million each year. Approximately twenty percent of lenders are already using this method, this would mean new savings to the program of $300 million, with the bulk of the savings taking place the year after implementation, and similar savings every year after.

In considering enacting co-payable multiple disbursement, the Congress should be aware that the administrative costs that are incurred by lenders increase significantly. The computer software necessary to implement this method, for example, is not available as an off-the-shelf commercial product. This means that the software must be developed by the lender at a sizable cost. For smaller lenders whose capital expenditures are spread over a smaller portfolio, these costs are relatively greater. For these institutions, co-payable multiple disbursement represents a major administrative change in the program significantly altering the economics of their participation.

I would also like to observe that this method of disbursement entails many other costs in addition to computer software. Many of the administrative steps inherent in originating a loan must be repeated as a result of this requirement. Verifying the enrollment status of the student and issuing an additional check and getting it to the student are examples.

Mr. Chairman, implementing co-payable multiple disbursement is not something most lenders would be able to accomplish in one or two months. To set up and test the necessary computer programs and administrative procedures, at least five or six months should be provided. If a shorter lead time is legislated, I would anticipate that some lenders would be forced to temporarily stop making loans while their system was implemented.

The additional administrative costs associated with co-payable multiple disbursement would reduce the yield of the average GSL lender by .20 percent. The consumer Bankers Association has endorsed this disbursement method as part of its recommendations submitted to you on April 30th. Coupling this change with a .3 percent reduction in the special allowance, however, would have a devastating effect on lenders. Our analysis shows that the typical return on assets on GSLs would be reduced by between .4 and .7 percent, not including the additional expense of accounting for a portion of the loans on which the government would not pay interest and special allowance.

In discussing the issue of co-payable multiple disbursement, it is important to recognize that the proposal has been put forth in two variations. The first variation, the one endorsed by CBA, does not call for any alteration in the existing coverage on multiply-disbursed loans under special allowance. Under existing law, lenders receive interest and special allowance on the second disbursement between the time that the loan is originated and the time that the second disbursement is made. This payment reflects the fact that the lender has committed the available capital to the borrower and the fact that additional administrative costs are incurred.

The second variation of co-payable multiple disbursement until the second check was in the hands of the borrower. New administrative burdens and costs would be placed on most lenders without any corresponding compensation. This variation represents close to double origination expense without any compensation to lenders who must redesign their delivery systems. By continuing this inducement, lenders would be encouraged to adopt a co-payable multiple disbursement system with the expense to the government small compared to the savings offered.

LOAN CONSOLIDATION

I would now like to briefly turn to the issue of loan consolidation. As you know, Mr. Chairman, CBA supports the enactment of a loan consolidation program. We believe that loan consolidation is important as a default prevention mechanism for highly-indebted GSL borrowers. We believe strongly that lender participation in loan consolidation should include any commercial lender holding one or more of an applicant's individual student loans. We stand ready to assist the Subcommittee in the drafting of the legislative provisions of a loan consolidation program.

In closing, I would like to remind the Committee that since there is a multiplier effect for every dollar spent by the federal government, this makes the GSL program the most successful and efficient form of federal student financial assistance. In light of the importance of this program to millions of students each year, I believe the continuation of current subsidies in the program to be a bargain.

I would be happy to respond to any questions members of the Subcommittee might have. Thank you.

Mr. FORD. Thank you very much.

Mr. Fox.

Mr. FOX. Thank you, Mr. Chairman.

I had the opportunity to get some material from Federal Reserve bulletins which I thought might be useful. This shows what the banking system is paying for its deposits, what it's yielding on its consumer loans, and what it's yielding on its credit card loans.

This is instructive because, over a period of, say, the last 5 years, you can establish a pattern as to what not only the averages were but the approximate juxtapositions have been between the rates and spreads against cost of funds of all these different kinds of loans, and I think it shows some very interesting stuff.

For example, in the first quarter of 1985, the banks were making approximately 10 percent over their cost of funds in their credit cards—this is gross—making about 4.5 percent over their cost of funds on their car loans and making about 2.5 percent over their cost of funds, gross, on their student loans.

That suggests to me they are making a lot of money on their credit card loans, but I think, more importantly, there's pretty good evidence from Federal Reserve data, if you go back over the last 20 or 25 quarters, averages from all institutions around the country, that the actual gross yield on a student loan has been significantly less, quarter by quarter, than the gross yield under the consumer loan portfolio and, even more so, on their credit card portfolio.

Additionally, I think you have to recognize that car loans have collateral, and that the losses are modest, and that the writeoffs on consumer loans are not that great when they're not collateralized, and the loss experience on credit cards is running something less than 2 percent.

So, by any measure, the net returns are pretty good on these alternative investments, and the student loan, which has no collateral but which is, fortunately, dependent upon and takes advantage of the Federal guaranty or State guaranty, unfortunately, happens to be quite costly to administer; there are high administration costs and the like.

So I think it's pretty fair to say that from published Government-generated documentation, the student loan isn't the most attractive piece of paper on the books of the banking institutions.

But, having said that, there's nothing worse to talk about than averages because, as we start looking at the cost of funds, the administrative costs, the collection costs, and the like, no two institutions are the same.

A number of years ago, this committee set up a public committee to examine the special interest allowance in 1976 and 1977. I wound up being chairman of that committee, and we examined in detail with auditors the books and accounts of a number of lenders.

While the world has changed dramatically in the last 7 or 8 years, it was instructive to find out that no two institutions managed their portfolios the same way, there were differing State rules; there were different costs associated with how these institutions raised their funds; some were much more efficient than others in their fund-raising; some were much more efficient than others in their administrative costs; collection costs keep changing and increasing, both because it's labor-intensive in this inflationary environment we just came through and because of changes in rules at the Federal and State level.

So we found that no two institutions had the same yield or the same return for participating in the Student Loan Program.

We talked before about the changes that are going on in the banking system as well, the fact that there is regulatory change in the banking environment, there is risk, and there is change legislatively in the banking environment, and people are making changes in how they allocate their resources in the banking system.

Having determined that this is not the most attractive yield, albeit a variable rate one and one that's reasonably dependable, can we count on the banking system based on these alternative yields and the changes in the banking system that are forthcoming by regulation, legislation, and by weakness? Can we depend on the banking system to continue to participate as they have in the past?

The banking system has put almost $50 billion into this program in the last 15 years, which is a monumental effort. They have put this money into the program frequently when the yields were not attractive, when claims were not being paid on time. Can we count on them to continue to do this in the future?

I think the answer is somewhat unknown at this point in time, because when we are talking about resources, we're talking not only about dollars, which are more expensive relative to the marketplace than they used to be, but we're talking about human resources and data processing time.

If we are going to go to interstate banking, if we are going to go to new products in the banking system, this is going to mean new systems, this is going to mean new operational hardships for the institutions. Will they allocate the resources to build the computer systems for student loans? I don't know.

We have to hope that there is sufficient inducement in the yields, sufficient inducement in the gross return to these institutions that they would be willing to make that commitment.

Will these loans look as attractive in the future if you change the rules one more time or two more times? In the past, we've had dropouts when the regulatory process got horrendous and institutions just felt that it wasn't worthy to stay in the program as they had to commit these human resources and data processing resources in a period of change.

Also, there are a couple of subtle, hidden changes that have taken place in the yield in the program in the last year. You may recall that the Grace Commission suggested that the Government not pay their bills when the bills were being submitted for the special allowance.

I can tell you that Sallie Mae now gets its special allowance and its other interest benefits from the Government at the last possible date—a 30-day delay—that the Government can make that payment without having a penalty put on it.

This recommendation is inconsistent with the original intent of the law, which gave the Government a 30-day grace period to pay their bills on a timely basis, and, as a result, our yields have been reduced in the last year by one-eighth of 1 percent already.

There are other kinds of payments which have been delayed by the Government in terms of the checks that are being cut for default and the like. All of these things are nibbling away at the yield and have already occurred in the program.

As you sit down to look at the yield and the cost to the Government of this program, you have to recognize that institutions differ, their costs differ, and you've got to provide a benefit that is sufficient to induce a sufficient amount of capital to make certain that every qualifying student gets a loan.

There are ways in which you can reduce your costs by reducing some of the operational aspects of the program that are duplicative, redundant, or unnecessary in the banking program, and I think all of us in the banking system or in the secondary market would work with you to try to identify some of those needless costs which might be able to, on a quid-pro-quo basis, reduce your costs.

But, on balance, you have to assure yourself that you're putting out, through the totality of all of these benefits, through your regulations and the like—assure that you will have the participation of the primary lenders—the people who put up the capital in the past, participating to the extent that you deem necessary to support your programs. You can't look at any one component piece of this without looking at the whole.

I think that, certainly, in working with you and the staff over the years, I know you have an understanding of this, and we'll be pleased to work with you, with the bankers, and with the educational institutions in arriving at a suitable special allowance and program cost to the Government.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Fox follows:]

Prepared Statement of Edward A. Fox, President and Chief Executive Officer, Student Loan Marketing Association (Sallie Mae)

SUMMARY

Changes to a successful program based on inducement of private capital investment should be examined carefully to insure that the student loan remains a viable financial instrument; changes should be based on a firm understanding of a lender's yield, why a bank chooses to participate and how a change will affect these considerations—and lender participation. Without such analysis, arbitrary changes in GSL are a form of legislative Russian roulette.

The reasonable expectation of a lender in the GSLP is to obtain an equitable rate of return on its investment. A lender's rate of return, or "yield," is affected by many factors:

Cost of Funds.—A lender's liability structure and management, its geographical marketplace, and the volatility of money markets all help determine costs of funds and, therefore, net yield on assets.

Administrative Costs.—These costs are a major burden on GSLP participants. Examples: differing state systems; delay in payment of special interest allowance billings.

Collection Costs.—These costs constitute the single most costly noninterest expense of participation in the GSLP. Costs are compounded by varying state regulations, which preclude uniform servicing systems.

Loan Portfolio Characteristics.—Costs, and hence rates of return, are a function of loan status, size, and other loan characteristics. Higher yields on in-school and larger balance loans offset reduced yields or losses on loans in repayment and small loans.

The special allowance is a proxy for an infinite variety of characteristics and calculations which is designed to provide an average "equitable rate of return" to all GSL lenders and holders.

Any examination of a lender's rate of return on GSLs is one dimensional unless it considers other potential investments available to the lender. In general, other investments are simpler, more profitable, and shorter in term. An assured, variable, market rate of return is the one advantage GSLs offer.

We believe the current design of the GSLP, which provides a marginal, though equitable, rate of return to the lender, reflective of market conditions and administrative costs, creates a viable program with enough incentives to continue commercial participation.

This result has been achieved after two decades of tinkering—which finally resulted in a successful formula.

Reauthorization must consider the future viability of the GSL as a financial investment in view of the changes in the financial services industry. Lenders' reasons for participation may change radically with legislative and marketplace developments.

Any change in the student loan instrument must be understood for its individual effect and for its effect in combination with other program components, so that the design of the instrument as a whole can be assessed. Only this way can the budgetary impact of a change be effectively weighed against the risk of potential lender non-participation.

Mr. Chairman, I am Edward A. Fox, President and Chief Executive Officer of the Student Loan Marketing Association (Sallie Mae) the Congressionally chartered, shareholder-owned secondary market for student loans. I am pleased to appear before you to discuss reauthorization of the Higher Education Act and, in particular, the issues pertaining to subsidies paid on the student's behalf to lenders and other holders of guaranteed student loans (GSLs).

In reviewing the current statute which creates the guaranteed student loan instrument, you and your subcommittee should consider the demonstrated effectiveness of this program as a public-private partnership in support of the public goal of financing higher education. In the GSLP, the Congress has created a very successful program premised on the concept that private captial should be the primary source of student credit. Tens of billions of dollars have been provided under the program to help students finance their education. Hence, proposed changes to the GSLP should be examined carefully to insure that the instrument itself continues to be a viable one for investment by commercial lending institutions. Central to an analysis of proposed changes to the instrument should be a firm understanding of why banks choose to participate in the program, what impacts lenders' yields on program loans, and how changes may thus affect lender participation—and loan availability.

Without such analysis, Mr. Chairman, making arbitrary changes in a successful program like the GSLP would be like playing legislative Russian roulette.

PURPOSE OF THE SPECIAL ALLOWANCE

The public-private partnership I mentioned a moment ago is based on the provision of a few essential public sector incentives to foster private sector participation. One such incentive is the assurance that private sector lenders will receive a market rate of return on their investment. Thus, while the student borrower receives his or her loan at a fixed, below market rate of interest, the government provides the lender or other holder of the student's note with a special allowance payment on the student's behalf. The primary purpose of this special allowance is to ensure that participating GSLP lenders maintain their lending activity, providing the private capital that is essential to the program.[1] The federal government also subsidizes the student by paying all the interest due while the student is still in school.

This simple concept has resulted in a system which provides approximatly $8 billion annually in financing for higher education.

Commercial lenders can participate in the GSLP—or any other lending activity—only so long as they can expect to obtain an equitable rate of return on investment. Of course, the definition of an equitable rate of return varies widely among lenders. The calculation of any given lender's net yield or rate of return is a function of numerous factors: cost of funds, collection and other administrative costs, and characteristics of the loan portfolio. The yield of a small hometown banker with a low cost of funds, a small portfolio and a manual accounting system cannot be expected to equate to the yield of a huge institutional, multi-state lender with a high cost of funds, automated computer processing and a multimillion dollar student loan portfolio. Thus, the special allowance payment must provide what amounts to an average "equitable rate of return" for all GSL lenders and holders.

The cost of funds component of the yield equation varies widely between different types of institutions and even among institutions of the same type. The liability structure and liability management of each institution, as well as its geographic market area, are all determinants of the cost of funds and therefore of net yield on assets, to say nothing of volatility in the money markets. Some primary lenders and secondary markets have access to tax-exempt funds—by far the lowest cost funds available in the money markets today. Commercial banks, credit unions, and savings and loans compete for retail and wholesale sources of funds, often with vastly different results. For example, the cost of funds (interest expense divided by average interest bearing liabilities) of a group of major lenders chosen at random for 1984, ranged from 8½ percent to 12¼ percent according to their year-end reports.

Administrative costs are another major consideration in the yield analysis for the GSLP. To a large extent, administrative burden, both real and perceived, has governed lenders' concerns about the adequacy of the special interest allowance. Much of it is real. The program is heavily regulated, with a complex matrix of state regulation overlaying federal requirements. This regulatory complexity precludes development of uniform origination, accounting, and servicing systems, necessitating cumbersome—and costly—loan administration procedures.

A brief illustration, based on federal regulation, demonstrates that even at its simplest, the GSLP is complicated. The current special allowance system allows a lender to pool all its loans with similar characteristics in presenting quarterly bills to the government for special allowance payments. This seems a simple concept. However, a lender may have pools of 7 percent, 8 percent, and 9 percent loans. Within each interest rate grouping there may be both in-school and in-repayment loans. Some loans may have rounding to the next one-eighth percent, others not. Some may have 6-month grace periods, other 9. Some may be deferred, others nondeferred. And, so it goes. Even so, pooling provides some administrative efficiencies, so that lenders generally oppose any change in the program which would require individual tracking of single notes and eliminate the use of pools. As operational inefficiency increases, effective yields on GSLs will decline.

A further example of the negative impact of administrative decisions on lenders' yields is provided by the Department of Education's decision, based on a Grace Commission Recommendation, to withhold special allowance payments until the last possible day before it will incur interest penalties. As a result of that administrative decision, a lender may now have to wait as long as 30 days from the time it submits a quarterly special allowance bill to receive payment. In Sallie Mae's own experience, this single change made by administrative action has the annualized impact of a 15 basis point reduction in effective yield. In other words, the special allowance is worth 15 basis points less than when timely payment was provided.

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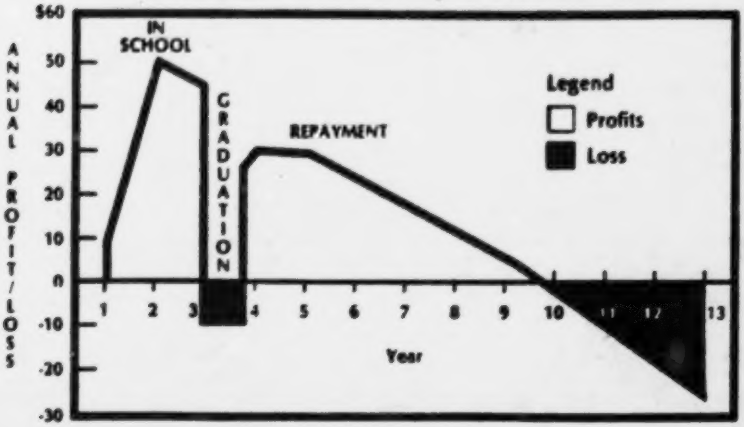
[1] The special allowance is calculated quarterly to bring the total yield on GSLs to the average bond equivalent of the 91-day Treasury Bill auction rate plus 3.5 percentage points.

Largely due to regulatory requirements, collection costs present a substantial burden on GSL lenders and holders. In fact, collection costs are the single most costly noninterest expense related to participation in the program. Because each State Guarantor requires different processing procedures there can, as I mentioned a moment ago, be no uniform servicing system. This means most servicers will only administer loans from a single state or a handful of states. To provide an effective national secondary market and contain servicing costs at a reasonable level, Sallie Mae, thus, in 1980 created its own servicing center in Virginia, for loans from those states where effective third-party servicers were not available. That servicing center, which represents an investment of approximately $3 million, now handles approximately $1.2 billion in loans. Even with that volume, servicing is labor intensive and can only be automated to a certain degree due to regulatory complexity.

Loan portfolio characteristics also vary widely and have substantial impact on a lender's yield. One such determinative characteristic is loan status, that is, whether loans in a particular portfolio are new originations in-school, in grace or in repayment. Loan origination is a brief but very costly phase of a loan's life. It is followed by a relatively low cost period while the student remains in school. During this phase the lender's responsibility is essentially limited to billing the government for interest on a quarterly basis. Costs accelerate again during the loan conversion process, when the student must be located and a repayment schedule negotiated. The following repayment period, the longest phase of a loan's average life, is also the most costly, as the lender must maintain contact with the student and process collections on a continuous basis. Origination costs amortized over the life of the asset, reduce effective yield. And, while the lack of collection costs during the in-school phase increases the lender's rate of return during this period, such higher earnings are substantially offset by the declining yields and even losses experienced in the latter phase of repayment. The following chart will serve to illustrate the point.

Profit/Loss Of A Sample Student Loan



Other loan characteristics affect yield as well. Particularly low-balance loans and/or loans to one-time borrowers reduce the lender's rate of return proportionate to their representation in the portfolios. Origination and collection costs are the same for these loans as they are for higher balance loans, but such costs obviously consume a greater portion of gross yield on lower balances. However, lenders participating in the GSLP cannot know in advance the characteristics their portfolios will assume. They can only try to manage their portfolios by utilizing the secondary markets and hope that the return on high balance loans will provide some offset to the minimal yield on small loans.

Therefore, the special allowance on average must be a proxy for an infinite variety of characteristics and calculations which would be necessary to fine-tune the allowance to give each financial institution an equitable rate of return. By assuring on average that each lender is sufficiently satisfied with its rate of return, the special allowance helps assure the continued availability of student loans.

Moreover, an examination of the special allowance and the rate of return it provides lenders is incomplete unless it considers potential alternate investments which could replace the GSLP for the commercial lender. While the guarantee on student loans provides a substitute for collateral available for most other consumer lending—such as car loans or mortgages, we know from the program's early experience that the guarantee alone will not insure lender participation. Moreover, student loans are far more complex and longer in term than most alternate consumer-related investments. A normal consumer loan is a simple promissory note subject to very little regulation, for a term of two to five years. A student loan is subject to massive federal and state regulation and has an average life of about 10 years. The special allowance, however, endows student loans with one significant advantage in that it assures a variable, market rate of return tied to Treasury Bill rates. While not a perfect proxy, on average, this index reflects the condition of the money markets. In determining where to invest his or her bank's funds, the bank manager will weigh that certainty of a return relative to money market rates against the opportunity to achieve often higher rates of return, but usually at a fixed rate, on other consumer instruments. Any consideration of changes in the nature of the financial instrument must be carefully considered so as not to create a situation where the student loan becomes the least desirable alternative and unattractive to commercial lenders.

We believe that the current design of the student loan, which provides a marginal though equitable rate of return to the lender, reflective of market conditions and administrative costs, creates a viable program with enough incentives to continue commercial participation.

HISTORICAL PERSPECTIVE ON THE SPECIAL ALLOWANCE

We did not reach the point where lenders willingly make student loans easily, Mr. Chairman. To place the GSLP in a historical perspective, we should remember that the design of the program was changed six times before it reached its present configuration in 1981. The current design is the result of two decades of tinkering with the components necessitated by lenders' previous unwillingness to participate. As an appendix, I have included a history of changes in the special allowance.

It is the very success of this tinkering and the resulting high loan origination volume which has focused attention on this program in the current budget-cutting environment. However, as the chronology indicates, there are not many program configurations that have not already been tried.

THE FUTURE OF STUDENT LOANS AS A FINANCIAL INSTRUMENT

As you examine the student loan program, and the viability of GSLs as financial instruments, it is crucial that major consideration be given to the affects of changes in the financial services industry on lender's investment decisions. Why financial institutions invest in student loans and whether they will continue to do so in the new industry environment will dictate whether or not this program will continue to be successful.

Currently, financial institutions have many differing reasons to invest in student loans, not all of them directly related to the profitability of the investment. A lender may participate as a means of continuing established consumer relationships. A lender may participate as a means of creating new customer relationships that could create a market for other financial services in the future. A lender may participate because competing institutions are lenders in the program. A lender may use its student loan portfolio as a means of meeting its federal requirements under the Community Reinvestment Act. In recent times, some lenders have even utilized student loans as a means of gaining a toehold in interstate banking because GSLs are one of the few instruments which banks can use to reach beyond state boundaries.

Some of these nonprogrammatic inducements may change radically or disappear altogether very shortly. Later this week, the House Banking Committee will begin the process of marking up an interstate banking bill. Last year the Senate passed a bill granting substantial new powers to banks. I cannot predict, nor do I believe anyone can, the effect on student loans of these proposed sweeping changes in the financial industry. I do, however, believe you must take note that the GSLP, unlike nationally sponsored mortgage programs, is a state-based program. Once interstate banking is a reality, banks may well find the program less attractive, even unattractive, in its present highly regulated form.

Meeting the challenges posed by these changing imperatives within the financial community could be the most important work this committee will accomplish for this program in reauthorization. Changes which have affected the program in the past have often occurred without the opportunity for the Congress to prepare for the change. No one, for example, predicted the interest rate spiral of the late '70s. This program survived the abrupt change in environment then, not because the Congress responded to a situation it could not foresee, but because Congress had the foresight to provide a variable, market-rate-driven rate of return to the lender. We can now, however, foresee the advent of interstate banking, and we must insure that this instrument is competitive in that new environment. If we don't, the GSLP will become a matter of legislative history, alive only in the statute books.

Currently there are numerous recommendations before you to change the design of this instrument: reductions in the special allowance, multiple disbursements, different special allowances for in-school and in-repayment, fixed rates of interest, extended repayment, and many more. Each of these has a potential affect on participating lenders' yields administrative burdens—and decision whether or not to participate.

I do not mean to suggest that the current design of the GSLP is perfect and cannot or should not be altered. I merely suggest that any change must consider lenders' motivation for participating in the GSLP, both now and after further deregulation, and as a part of that equation, what constitutes an equitable rate of return, given the instrument's complexities. In sum, I urge you weigh most heavily whether, on average, proposed program alterations will accomplish the objective of providing sufficient incentive to commercial lenders to make available large amounts of capital to support higher education.

In 1977, I chaired the Committee on the Process of Determining the Student Loan Special Allowances, mandated by the Education Amendments of 1976. The world of financial institutions has changed dramatically since that time, Mr. Chairman, so I would not suggest that you base decisions concerning this program and its future on such out-of-date information. I would, however, suggest that a new, indepth examination, such as that conducted by the Committee in 1977, might provide data from which you could chart the future of the GSLP without fear of precipitating a collapse of the program because commercial lenders withdraw their support.

Further, I believe that if you take into account how a lender calculates its rate of return on what basis a lender decides to participate in the program, constructive change is possible in the design of the system. For instance, Mr. Chairman, if you reduce the costs of program participation to the lender, an offsetting reduction in yield becomes eminently reasonable.

In sum, I suggest that each proposed change must be understood for its individual effect and for its effect in combination with other program components, so that the design of the instrument as a whole can be assessed. Only this way can the budgetary impact of a change be effectively weighed against the risk of potential lender nonparticipation. In a complex program such as this, such analysis is difficult but necessary.

As usual, Mr. Chairman, I and the entire staff of Sallie Mae are available to you and the members of the Committee to answer any questions or provide any data you may find useful.

APPENDIX 1

CHRONOLOGY OF LEGISLATIVE CHANGES IN SPECIAL ALLOWANCE FOR GUARANTEED STUDENT LOAN PROGRAM

With the passage of the Higher Education Act of 1965, Congress created a new program of financial assistance for postsecondary students. The Guaranteed Student Loan Program provides a government guarantee and an interest subsidy to induce lenders to provide private capital for educational loans. The central purpose of the program is and was to assure adequate educational credit resources particularly during periods of economic emergencies. Despite the existence of the program, however, external economic conditions in the years after 1965 still created an uncertain environment for students seeking access to educational loan funds.

The first major change in the program took place in 1968 when Congress revised the interest rate charged to borrowers from 6 percent to 7 percent to reflect the then rising cost of credit. Then, in 1969, Congress took emergency action to avoid a drastic reduction in the number and volume of educational loans due to rapidly escalating interest rates. In particular, Congress enacted the Emergency Insured Student Loan Act (Public Law 91-95) in order to insure students reasonable access to educational loans. In that legislation Congress authorized the Secretary of Health, Education and Welfare to pay special allowances to lenders on insured loans made under the Guaranteed Student Loan Program after August 1, 1969. These special allowances represented a means of increasing the rate of return to lenders during periods of tight credit without increasing the rate of interest charged to the student-borrower.

Congress authorized the Secretary of HEW to prescribe regulations for the special allowances which were to be payable by the Commissioner of Education to holders of eligible loans. The amount of the special allowance was to be set quarterly according to the Secretary's discretion and was not to exceed 3 percent of the average unpaid principal balance of eligible loans held by lenders. The Secretary was to determine the amount of the allowance at the end of each quarter based upon whether limitations on interest or other conditions caused the return to the lender to be less than equitable and whether these conditions impeded or jeopardized the purposes of the Guaranteed Student Loan Program. By statute, the holder of an eligible loan was deemed to have "contractual right" to receive the special allowance.

Congress continued to reauthorize the original special allowance program until 1976 when it changed the incentive mechanism significantly. While acknowledging the continuing need for the Guaranteed Student Loan Program, Congress focused on improving the original program to maximize student loan availability. Congress recognized that lenders had a legitimate interest in receiving reasonable compensation and had made substantial contributions to the program, and that the success of the Guaranteed Student Loan Program was fundamentally reliant upon voluntary participation by private lending organizations. Consequently, Congress revised the special allowance, making all educational loans—subsidized or unsubsidized; federal or state guaranteed; commercial or direct state lender—eligible for the quarterly payments. The holders of these loans would continue to have a contract right to receive these special allowances.

Moreover, Congress established an "improved method" for determining the quarterly rate of the special allowance. In so doing, Congress removed HEW's discretion to set the payment level and for the first time enacted a statutory formula tied to the 91-day Treasury bill rate.

Under this statutory fomula, the special allowance was computed quarterly by determining the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the prior 3-month period, subtracting 3.5 percent from that average, rounding the resultant percentage to the nearest one-eighth of 1 percent, and dividing by four. For the first three quarters of 1977, the special allowance computed according to this new statutory formula was capped at 3 percent and effective October 1, 1977, this cap was raised to 5 percent. Furthermore, the Commissioner of Education was required to pay penalty interest on interest and special allowance billings beginning 31 days after the receipt of the billing from the lender up to the date payment was authorized by the federal government. The penalty interest was equal to the daily equivalent rate of the special allowance plus 7 percent. Lastly, the 1976 amendments repealed the Emergency Insured Student Loan Act of 1969 and made the special allowance part of the permanent Higher Education Act.

In the Higher Education Act of 1977 (Public Law 95-43), Congress made certain technical amendments to the special allowance program, such as clarifying that the payment should be based on the "average" unpaid loan principal and that the allowance should be paid on a quarterly schedule.

In the Education Amendments of 1980 (Public Law 96-374), Congress enacted additional major structural changes in the special allowance program. First, the special allowance formula was revised to reflect the existence of student loans which bore different interest rates, i.e., 7, 8, and 9 percent. The formula was graduated so that the overall rate of return to all lenders, after consideration of the special allowance, was the same regardless of the particular interest rates paid by students on the eligible loans. This rate equalization was achieved first by subtracting 3.5 percent from the preceding quarter's average 91-day "T-bill" rate for 7 percent student loans, subtracting 4.5 percent from the same "T-bill" rate for 8 percent student loans, and subtracting 5.5 percent from the average "T-bill" rate for 9 percent student loans. Next, the percentages derived from these calculations were divided by four to arrive at the quarterly special allowance rate. In sum, the special allowance declined 1 percent for each 1 percent that the interest rate paid by the student-borrower increased.

The 1980 education amendments also addressed the issue of the appropriate level of special allowance for loans which were made or purchased by the holder from the issuance of tax-exempt bonds. In view of the existing economic benefits associated with such tax-exempt financing, Congress cut in half the special allowance otherwise resulting from the new graduated formula for loans generated by tax-exempt bonds, subject to the following minimum special allowance rates: 2.5 percent for 7 percent student loans, 1.5 percent for 8 percent student loans, and 0.5 percent for 9 percent student loans.

Lastly, the 1980 education amendments expressly clarified that the holder of an eligible loan had a contractual right to receive the special allowance "during the life of the loan."

Congress last amended the special allowance in the Omnibus Reconciliation Act of 1981 (Public Law 97-31). Faced with serious pressure to restrain federal budgetary expenditures, Congress made certain adjustments to the Guaranteed Student Loan Program, particularly by eliminating so-called "convenience borrowing" by nonneedy students and by increasing the financial contribution required from students and their families to secure loans. Moreover, in order to maintain private lender participation and confidence in the program during periods of volatile and unpredictable interest rates such as those which existed in 1981, Congress eliminated the statutory reference to 7, 8, and 9 percent student loans and made all student loans subject to a single, revised formula without any caps on the maximum special allowance rate. The special allowance formula was revised to guarantee a minimum 3.5 percent incentive rate to all lenders on all student loans except for those generated by tax-exempt financing which continued to be subject to a sliding scale of lower minimums. While the previous statutory formula required deducting 3.5 percent from the quarterly average "T-bill" rate, the 1981 amendments required that the particular loan rate paid by the student-borrower by deducted from the preceding quarter's average "T-bill" rate, yielding a figure to which 3.5 percent would be added, and the resultant sum would be divided by four to determine the relevant quarterly special allowance. The effect of this reformulation, which continues to date, is to guarantee lenders at least a 3.5 percent special allowance over the life of eligible loans.

Mr. FORD. Thank you very much.

Going back to the multiple disbursement for a moment, we've been engaged in multiple disbursement for all of the other programs for years.

We do not give, generally, all of the Pell grant money up front, the campus-based programs, or, as a matter of fact, the national direct student loans. They are involved, and have been at the institution level, in multiple disbursement as a matter of course.

Why is it—and I think it was Mr. Donovan who touched on this—that your institutions feel that doing the same thing with the guaranteed student loan becomes cumbersome and expensive?

The reasons that you gave for multiple disbursements are very concise, very good, and maybe that's because I agree with them, but then, on the down side, you suggested that you had some experience, particularly with smaller institutions that aren't automated where doing multiple disbursements with the guaranteed student loans would place a burden on them that they might not respond to adequately and you'd increase the error rate.

Now, if they're able to take the other funds on their campus already and do it, why can't they do the same thing with guaranteed student loan proceeds?

Mr. DONOVAN. Mr. Chairman, the institutions I was speaking of were lenders rather than colleges and universities. The lenders do incur a number of processing costs associated with it.

We found that about half of our lenders, or so, make multiple disbursements in the State. Every one of those is very committed to the philosophy of multiple disbursement. We have not heard a single negative comment, either from lenders or higher ed institutions. The lenders just caution us that it is extremely—there is a high amount of processing associated with multiple disbursements.

We, as a guarantor, do multiple disbursements for certain lenders, and we have found the same sort of pattern of costs. It is very costly, but the benefits far outweigh the costs.

Mr. FORD. Mr. Davis, you indicated that your some 4 or 5 years of experience with the Union Trust Co. of Maryland has been very positive, and you think that, indeed, it will save money for the Government and the program.

Mr. DAVIS. If you can go by our experience, we're convinced of it. We recognize we're in one geographic area, which is the State of Maryland.

I'll ask Ben to make a comment, but initially, 3 to 4 years ago, our calling program to the schools and universities within the territory that we do business was, even at their suggestion in many cases, that we get involved with multiple disbursements, because they as well as the banking industry are concerned about the terminology credibility—it goes out a long way—credibility about our own institutions and the community and credibility about this worthwhile program.

In reviewing the rules and regulations that we work under, Ben took it upon himself to do research with regard to putting together this multiple disbursement.

At this point, I'll ask Ben to make a comment.

Mr. LEBORYS. We have found that in the last 2 years we have been measuring the number of checks that are returned on the second disbursement. There are a number of checks that would be returned to any institutions the first go-around because the student, for whatever the reason, did not start at that school.

But if the full amount of the loan is disbursed in just one disbursement, say, in September, the disbursements that take place in January simply would not exist.

We found that 11.3 percent of those checks came back to our bank unutilized because the students had either changed schools or lost eligibility or dropped out of school. This represented about $1.4 million.

We have tracked that through our system, and we feel that if our experience could be applied on a national basis, assuming that we have a somewhat representative kind of portfolio that you would find across the country, this would amount to literally hundreds of millions of dollars, not necessarily in the first year, but in interest and special allowance defaults and things that take place through the life of the loan if it was fully disbursed.

We're not in a position to give you exact numbers, because we can only estimate that there are roughly 80 percent of the lenders out there that are not doing double disbursement; only 20 percent do.

We feel that we're talking in terms of perhaps $300 million a year as a potential savings if this was implemented by all lenders.

Mr. FORD. Mr. Davis, or you, under the present system, if a full $2,500 loan for an undergraduate is made or a $5,000 loan for a graduate student is made, and you disburse that money in two or more payments, when does the interest start to run on the $2,500?

Mr. **Davis**. In the normal procedure, our experience is that the check is issued in September for the full amount. If it's a multiple disbursement check, the first check goes out in September; the interest meter starts running on the full amount of $2,500. In January, the second check would be issued if the student was in school at that time.

So you have a run from September to January in most cases on double disbursement.

Mr. **Ford**. You pointed out that the Office of Management and Budget's proposal is that multiple disbursement would be made on a basis so that interest would not start to accrue until the disbursement was made.

Mr. **Davis**. That's right.

Mr. **Ford**. And that increases your cost. Can it therefore be argued that, if you're doing multiple disbursement now without any reduction in interest, you're getting an extra float out of that money?

Mr. **Davis**. The ground rules that we operate under indicate that there are additional costs in servicing that multiple disbursement. So we enjoy that benefit at the present time.

The banks that would be getting into it and are not aware of the costs associated with multiple disbursements would not have a full appreciation for that income at this point.

Mr. **Ford**. What you're suggesting to me then, if they're watching a computer closely, banks would be encouraged toward multiple disbursements under the present system and discouraged toward multiple disbursements if the interest didn't accrue until disbursement was made?

Mr. **Davis**. Yes.

Mr. **Ford**. That looks like the area we have to examine to find out how to do multiple disbursements.

You've also indicated quite strongly in your statement that either change in the special allowance or any requirement for multiple disbursements under the terms suggested by the administration would discourage banks from participating in the program.

Mr. **Davis**. That's our feeling.

Mr. **Ford**. We did a study with the National Commission on Student Aid a couple of years ago and asked the Wharton School in Pennsylvania to build a model for us and find out how banks made their decisions to get into the Guaranteed Student Loan Program and as to how much of their portfolio they would put in.

As the person who took the lid off, if you will, of the special allowance—and Mr. Stockman still thinks I'm personally responsible for half of his deficit—I was quite surprised to find that the Wharton study came up with the fact that most bank directors didn't give a damn, frankly—if I can use those terms—about what the special allowance was—that that was way down in the list of reasons why they made the decision to participate in the program at that time or why they had come into the program.

It led us to the conclusion in that commission that there was room to change the special allowance without having an immediate reaction.

That's hard to guess at, because I've never been able to guess why bankers do what bankers do, and now that they have computers and MBA's running their computers, nobody knows what they're going to do.

But I'm also very much aware that perception—that the publicity attendant upon a dramatic change in the special allowance might, for the first time, catch the attention of bank directors who have never noticed it before, and it would suddenly become far more important to them than it was in the past.

Has your association really done anything to try to update the information we got from Wharton on how important (a) the special allowance is and (b) the level of the special allowance? If you tinker with the special allowance, short of radical surgery, is there any yardstick that might give you a projection of how much you can tinker with it?

Mr. **Davis**. I have to admit, I have not read the Wharton study. I don't know whether Ed Fox wants to comment on that or not.

But I think that in the banking community today, in the environment that we're working under, the allocation of capital for various loan products, and with the up and coming variable rate lending capabilities that all banks are moving toward on the consumer loan side, beyond student lending, that this very point of special allowance is going to be very much a deeply considered boardroom review on a periodic basis to ascertain that the yields are there.

I believe it's more prevalent today than ever before and will be stronger in going forward due to the competition for funds and allocating dollars out for various loan products.

Mr. **Ford**. What both you and Mr. Fox are saying in one way or another is that, as the mix out there of demands for capital changes from time to time, we may be in a period now and coming into a period where this type of investment of capital becomes less and less desirable when compared with others, where, a few years ago, that might not have been the case.

Mr. **Davis**. That's our understanding and feeling.

Mr. **Ford**. Is it fair then to say that you're warning us to be careful that, while we can no better than anybody else guess what is going to happen out there, we are dealing with a pretty sensitive area with the special allowance that might, coming at this time and in this climate, have a more serious effect than the numbers would indicate?

Mr. **Davis**. Exactly. It's a very deep concern that we would pass on at this time.

Mr. **Ford**. Do you want to talk about that, Ed?

Mr. **Fox**. Mr. Chairman, speaking as an educator rather than a banker on the left-hand side of the table, a number of years ago, the student loan portfolio of a typical institution was very, very small. It was a very small subset of the consumer portfolio. These gentlemen represent the consumer sector of their institution.

It's quite likely that, at one-quarter of 1 percent or less of the total footings of the bank, most of the directors only knew about student loans what they saw in the headlines about the defaults and the red Corvette and everything else.

It was a very small piece that they undertook primarily for social purpose, and, if they heard anything about it at all, it was the fact that the kids didn't pay their loans back on a timely basis, and they just felt compelled to be in it because it was an appropriate service.

Today, you are finding a much smaller number of banks and savings institutions who are much larger in the program. You've had a consolidation. Perhaps 200 institutions now represent a very significant amount of nationwide lending, and, as a line item on the balance sheet, it's a very important one.

It's frequently, as we spoke before, 4, 5, or 8 percent of the footings of some institutions, where they have made it a very important part of their corporation's business.

I think that in the old days most institutions didn't really have a good sense of what the costs were associated with this program. We know that all institutions are different anyway, but I'd be surprised if most of the participants today really understood what the costs were in this program even today.

The net impact of all of this, with changes in the banking system, changes that we may see in this program, the fact there are going to be more competitive instruments, is that the boards will be more inclined to look at this program in comparison with other kinds of programs. This is not the only social purpose program that the banks have been asked to invest in in the last 5 or 10 years.

If SBA loans and Export-Import Bank loans and other kinds of loans are going to be diminished by legislation, there's going to be more social purpose demand on banking institutions.

So I think you are going to find much more awareness at the board level about this program in general, about the cost structure, about the problems associated with operations, and they're going to have to make a judgment, as a prudent business person, as to whether they wish to participate or not.

Whether you squeeze them out for a quarter of a percent or not, I don't know, but certainly they're going to be much more aware than they ever were before.

Mr. **Ford**. When we had a flat income cap on eligibility for the GSLs, which was re-enacted by Gramm-Latta in 1981 but didn't survive the conference, turned into a need analysis, to me, it seemed an important difference, the needs analysis performed at the educational institution. The income determination prior to that time would be determined at the bank level.

We were told prior to the Middle Income Student Assistance Act that one of the central concerns of bankers in processing loan originations was going through the process of looking at income tax returns and asking questions of family and so on. They were of the belief that it was an undue amount of paperwork, because it wasn't producing the result in screening out enough people to show that it was a worthwhile precaution.

So, for a short period of time, that element was removed from bankers entirely, and then it continued. It didn't go back to the bankers with the ultimate form of Gramm-Latta because it changed to a needs analysis, and that didn't put on the banker the responsibility of making the determination.

Now we still have a lot of people talking about caps, and unfortunately the other body has talked about a cap which they think is generous at a $60,000 family income.

I don't know how you would administer any kind of a cap without going back to the system as it was before, because you can't take anybody's word that they're below $60,000 when they come in, you have to check everybody, and we've put the bankers back in the business of determining what the family income is.

How does that weigh in as a discouraging factor for handling these loans?

Mr. Fox. Actually, given the various parties who participate in the program, some of that burden might be borne by the financial aid officer, some by the banking institution, some by the guarantor.

Every time another level of responsibility is built into the program, there are costs to all of those parties, and ultimately for the secondary market-maker who has to buy the paper and make certain that all of the steps have been followed.

Today, when we buy a loan, there could be 50 or 60 documents in there, that the borrower has borrowed a number of times, and there has been a number of communications. We, as a secondary market-maker, have to satify ourselves that all these steps have been undertaken. But every one of those steps required somebody to do something that had a cost attendant to it.

Simplification is hard to come by when you have 50 different State programs to begin with, and as you keep putting on more devices either to protect or to limit or to control, somebody has to perform functions, and every time that banker has to train an employee to create an audit trail by cutting two checks and putting it on the computer, each one of those little functions adds a few cents to the transaction and begins to add up.

We have a chart in the testimony that points out that the loan has varying phases of profitability. There are high costs associated with origination. Then there is the in-school phase when there is very little that has to be done, so the loan is profitable. Then you find the student in the grace period and go through the high cost period of creating the repayment scheme and system, the coupon books and the like. Then you have the repayment process, with the attendant problems of default, deferment, and everything else.

So, actually, the portfolio these fellows have when they originate is made up of a small number of loans that are in the high profit period early on, and a number of loans are in the low profit period, and there's a balance. But there are times when these loans lose money for you.

If you put additional costs in, they are going to weigh the average income over the average life to figure out what the average yield is, and, to the extent that they suddenly reach a pain point, or the point where there's no tolerance for that further increase in cost or decrease in yield, then they back away.

You have to measure those social or other types of conditions that are essential to making sure that the money gets dispensed appropriately, but you have to think of the operational costs that are attendant to each one of those that you put in place.

Mr. DONOVAN. Mr. Chairman, may I comment shortly on that?

Mr. FORD. Yes, please.

Mr. DONOVAN. We found that any time anything is added to that, as Ed was saying, the mechanisms for doing it are oftentimes shoved over to high ed institutions or the guarantor.

We found with the recent expansion of access over the last few years, we as a guarantor have picked up a great deal of pre-claim assistance volume that we'd never had in the past.

I would say that in my experience in the State of Washington—and we've talked to a number of lenders, very senior officers in those institutions—my impression is that they are in the program for the social purpose of the program. They target their lending depending upon the yield.

If the yield is sufficient, they are wide open, and they will handle many of the students they otherwise might not handle on a tighter yield. If the yield is reduced, they simply tighten up on the types of schools they lend to, or the year in school, or whatever, seeking higher balance loans with less dropout risk.

But if they do pick up those risks, they are oftentimes going back to the guarantor and saying can you help us do this, this, and this in servicing.

Mr. DAVIS. I might make one additional comment along those lines that, within the banking community, the fact today that we make the statement that there does not appear to be any problem with access, this would also include the small loan that no one is being turned away because of the loan being too small or not enough, or the time periods, or short terms in schools such as trade schools or proprietary schools.

Getting back to that special allowance consideration, there are a lot of things in that bag that are being covered by an average yield that the bankers look at, and to say to the Congress that we feel the program is working because anyone who is eligible can find a lender, regardless of the amount they seek, and those amounts that are sought and approved at the financial community level are the ones that the banking industry follows through with.

So, again, we're covering the costs incurred in a general very large kind of program.

Mr. FORD. The schedule shows me that tomorrow we're going to talk about the debt burden loan limits repayment, income cap, and needs analysis. I'd like to invite you gentlemen to give it a little thought.

The problem in dealing with an income cap and a needs analysis is that the political rhetoric gets in the way, because, to the public, an income cap seems so simple as a rationing device. That has a tremendous appeal. Unfortunately, the administration has fastened on it.

I didn't ask you today, do any of you have outstanding loans to people you know are from families in excess of $100,000 income?

Mr. DAVIS. No.

Mr. FORD. We're going to find that fellow, wherever he is. There are supposed to be 13,000 of them, according to the secretary, but we haven't got his list yet.

I'd like you to divorce yourselves from the political discussion that always goes on with these and think a little bit about the income cap versus, or along with, a needs analysis in terms of what you have been talking about here now and the concern that lenders have and guarantors in the increased costs of processing, whether in the origination or in the collection phase of these loans.

We've got to get some of you people who are in the industry, a little bit divorced from the politics we have to deal with, to look at the practical side of these things and tell us whether, as a practical matter, they make much sense.

Just saying that you're not in favor of a $60,000, or $70,000, or $40,000, or $30,000 income cap doesn't get you very far, I find, with most citizens and, unfortunately, with most Members of Congress, because it seems so simple and such an easy thing to determine.

What did you do in the days when you had to determine income cap in your program in Maryland? How did you determine family income?

Mr. DAVIS. Tax returns was one of them.

Mr. LEBOEUF. I'm going to have to relinquish that to someone else who was more involved with that at that point in time.

The financial aid community program has always been very responsive to trying to keep controls on this program, and they do a great deal of financial analysis for each student.

I'm not quite sure that determining an income cap from their standpoint is all that difficult a task, and perhaps I'm underestimating it.

My biggest concern in these income caps is the concern that I have any time we rule certain of our students out of the program, particularly students who are involved already and have counted on a subsequent flow of loans to their education and having to stop their education because, in our infinite wisdom, we told them they shouldn't need the money, and in fact they do, and it's not available any other place, so they have to disrupt their education.

Now, if they have not graduated in their chosen field, how does that student get a job in our economy and pay the loans that they already have, also feeling like the system let them down, left them stranded somewhere along the way.

Those kinds of operational concerns are at least as important if not more important to me to try and establish whether or not that family is really telling the truth, not that there shouldn't be some checks and balances, but I'm very concerned for the students that are in school and, obviously, the ones that are looking forward to going to schools.

I don't know how you pick an arbitrary number as a cap. The whole philosophy eludes me, because each family's circumstances are so different, with the numbers of children and responsibilities that they have.

Mr. FORD. That's a discussion we have to have, but I want to know from the people who work with this what is the difference between having a cap, no matter where you set it, and not having a cap, because no matter where you set the cap, that means that you put everybody through the same process.

There's no magic way that you can pick them out coming through the door and say here's one we have to check the income on. Everybody has to go through the same process. So you're not talking about the relatively small number of people who would be at the high end of the income scale and screened out. You're talking about everybody.

The poorest student who walks through the door is going to have to be submitted to the same process of income determination, whether by you or the school, as the one who wheels up in the sportscar and walks in with an expensive suit and all the appearances, to your sharp banker's eye, that would say maybe we'd better check this. You can't do it that way.

So, as a practical matter, what are we getting back into if we get to the point of trying to determine family income at some point in the process as a finite factor?

Mr. LEBORYS. The needs analysis is now completed on all students over $30,000 income. It's not done on families or students who indicate that they have——

Mr. FORD. But that's only because that's the way the statute is written. The recommendation now is that the needs analysis be applied to everyone.

Mr. DAVIS. Congressman, if you put this back into the banking arena, probably what it would mean is that we're being asked to become policemen again over a program that will require a cap—either the banking community or the educational community. That's the way we might view it.

Mr. FORD. I think you gentlemen have done a fine job of demonstrating how difficult it's going to be.

Before I yield to Mr. Bruce, I'd just like to ask you, Mr. Davis, wearing your hat as the president of your association—and I see your very able and competent counsel sitting back there—if you can't live with the administration's proposal of no subsidy until actual disbursement, and they can't live with a multiple disbursement plan that doesn't show some out year savings through that device all by itself, can you put—not now; it's too early to start compromising—start thinking about where we could end up down the road, and give them a little bit, and give you a little bit, and get a consensus someplace along the road on this?

I think that getting to multiple disbursements is important enough for us to put a lot of effort into it, but we don't want to do it in a way that produces a result that's different than the intention.

It's one thing to look at Mr. Stockman's figures on how much this will save, but that assumes a static world where nothing changes as a result of making that change, and we can't operate that way. So, someplace along the line, something will have to give.

The interesting problem we had in dealing with that subject on the budget this year is that if you put multiple disbursements, by their version, into effect and didn't pay the money until disbursement was made, it would actually cost the Federal Government on its budget some $30 million or $40 million the first year, because we bracket the school year with the fiscal year, and we'd split the first year discount that we take back on the loan.

So they looked at that and said, well, that doesn't save any money in 1986, so that's not too sexy. But when you look down the road, it does start saving some money.

That's one view that's strongly held here as a reason for doing it. Many of us are more persuaded by the things you've been saying and the things that have been said by the others here about facilitating our loss risk.

We have known for a long time—almost every study I've seen of who is in default indicates that people who don't complete their educational goal, whether it's a short-term program in a proprietary school or pursuit of a graduate degree, are the ones most likely to be found in largest numbers on our list of people who are in default. It didn't work for them.

That affects the motivation, obviously, of a good many people when it comes to repayment. They also tend to be the people who are found among that category that Mr. Fox referred to, I believe—or maybe it was Jean Frohlicher—where the default rate falls and you find the unemployed people in that category. I think there's a strong correlation between finishing the program and that unemployment in subsequent years.

But it has a very strong appeal to a lot of us, and some way we want to get to multiple disbursement, if we can. I think it's well worth it just to protect the integrity of the program to have the multiple disbursement going out there, so that you can demonstrate that you are not giving somebody a check and then they take off and don't go to school.

For the long-term health of the program, it's important that we demonstrate to the Congress and the public that there is integrity in the program, that it is managed in a businesslike way, and that we anticipate to the greatest extent possible potentials for abuse, either intentional or unintentional.

Mr. Bruce.

Mr. BRUCE. No questions, Mr. Chairman.

Mr. FORD. Thank you very much, gentlemen, for your participation today, and I'll invite you to watch the other panels that come up, and continue to give us your expertise from your perspective on this.

[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—Volume 1

WEDNESDAY, JUNE 5, 1985

House of Representatives,
Committee on Education and Labor,
Subcommittee on Postsecondary Education,
Washington, DC.

The subcommittee met, pursuant to call, at 10:25 a.m., in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Hayes, Solarz, Dymally, Penny, Atkins, Gaydos, Coleman, Gunderson, McKernan, Henry, and Petri.

Staff present: Thomas R. Wolanin, staff director; Kristin Gilbert, clerk; Richard D. DiEugenio, Republican senior legislative associate; and Rose DiNapoli, minority legislative associate.

Mr. Ford. I am pleased to call this meeting of the Subcommittee on Postsecondary Education to order, so that we may continue our hearings begun yesterday on the Guaranteed Student Loan Program in anticipation of the reauthorization of all programs authorized under the Higher Education Act.

We have scheduled a total of six hearings during the next 2½ weeks on the Guaranteed Student Loan Program, since it is perhaps the most complex program authorized under the Higher Education Act. It brings together student borrowers, education institutions, and various elements of the lending community. Our discussion today will focus on the issue of debt burdens, loan limits, need analysis, and income caps.

Before yielding to the other members of the subcommittee for any opening comments they wish to make, I would like to observe that we are operating under very difficult time constraints and, for that reason, have not been able to accommodate all of the people who would like to testify formally on the Guaranteed Student Loan Program. However, I would invite everyone who is in the room, whether you're on a panel or not, to submit whatever comments you may have to the committee and they will be included in the record contemporaneous with today's hearing. If, when the panelists are making their presentation, you are motivated by something they said, whether you agree or disagree with it, we would be pleased to have that from you as well. We want everyone who has even a gleam of an idea that would be helpful to us to submit it because we certainly need all the help we can get.

Mr. Coleman.

Mr. **Coleman**. Mr. Chairman, the subject this morning concerns debt burdens, loan limitations, need analysis, and income caps. The rising cost of postsecondary education today makes all of these topics relevant.

It used to be that a young person looked at a major purchase in his or her life as a family home. Now, that major purchase may very well be a college education. Parents are also looking at it in that fashion. These are very relevant topics and ones which I look forward to hearing from the witnesses on this morning.

Mr. **Ford**. Mr. Gaydos.

Mr. **Gaydos**. I have no comments, Mr. Chairman.

Mr. **Ford**. Mr. Gunderson.

Mr. **Gunderson**. Mr. Chairman, I have no special comments. I have a prepared opening statement that I would ask unanimous consent to insert in the record.

[The opening statement of Hon. Steve Gunderson follows:]

Opening Statement of Hon. Steve Gunderson, a Representative in Congress From the State of Wisconsin

I am pleased to be here for the second day of Washington hearings on the reauthorization of the Higher Education Act. I see that our Chairman, Mr. Ford, and the Ranking Minority Member, Mr. Coleman, have once again produced a distinguished panel of witnesses to bring to our attention the concerns of the higher education community with regard to the reauthorization process.

Today, we will hear the testimony of these nine knowledgeable witnesses, all addressing the future of the Guaranteed Student Loan Program, focusing primarily on the issues of debt burden, loan limits, repayment, income caps, and needs analysis. I am especially looking forward to hearing the comments of the panelists on the issues of income caps and needs analysis, as these are areas that would drastically affect eligibility of students for participation in the loan program.

One of the most important goals of the Subcommittee in this Congress' reauthorization of HEA is determining how we can strengthen the programs within the Act, while holding down, even reducing costs where possible. Many suggestions have been made this year, as in the past, on addressing the deficit problem, particularly through the GSL Program. While we will carefully consider all proposals, we must take care not to weaken the programs within the Higher Education Act, particularly those in Title IV, just for the purpose of cost-saving. There are certainly areas in which changes can be made that will reduce Federal spending. One such change that I support would be requiring that all students, not just those with family incomes over $30,000, be needs-tested. This one proposal has been estimated as saving the Federal government $15 million in FY 1986. Other suggested changes would involve the Administration of the GSL program, of particular interest are proposed changes in lender subsidies and disbursement policies. Some of these proposals we will consider today. But, as we look at these recommendations, we must keep in mind the overall success and purpose of the program—that of ensuring that all students, regardless of financial position, are enabled to receive a quality education at a school of their choice. This includes children of middle income families as well as those from lower income backgrounds.

One final point that I would like to see addressed in today's hearing is with regard to the financial needs of the older student. Although I know that today's hearing is not the designated hearing date for Title I, Continuing Education, I would hope that in any consideration of the Higher Education Act, the Education Community and the Congress would keep in mind the needs of the non-traditional student, particularly with regard to the Act's student assistance programs. This student population is increasing each year. Currently these older students have special needs that are going unmet. I hope that we will see that this population is considered as a high priority, particularly under Title IV, in the reauthorization process.

Mr. **Ford**. Mr. Dymally.

Mr. DYMALLY. No statement, Mr. Chairman.

Mr. FORD. I am going to switch the panel around here a little bit because we have some transportation problems, and our colleague is here. I would like to call Mr. Joe Cronin, president, Higher Education Assistance Corporation of Massachusetts; Charlie Saunders, vice president for government relations, American Council on Education; and Rev. William J. Sullivan, president of Seattle University—and, of course, our colleague, Mike Lowry. Would you all come forward to the chairs.

It is always a pleasure to see you, and I like to see you sitting there. I have to go before him on the Budget Committee and I like to see him on the other side of the table for a change.

You have somebody I believe that you want to introduce.

Mr. LOWRY. Yes; thank you, Mr. Chairman, and members of the committee.

It was largely because of your strong advocacy that we did so well with the budget in the House in regard to the student loan question. That had a lot to do with your testimony, Mr. Chairman.

It is a pleasure, Mr. Chairman, to introduce Rev. William Sullivan, who is president of Seattle University. Seattle University, for almost 100 years, has been a vital and important part of the community of greater Seattle. Both academically and as far as providing cultural, business background, good labor relations, Seattle University is vital to us, and the programs you are considering today are vital to Seattle University.

Father Sullivan has been president of Seattle University for 9 years. Before that he served as a dean, was a member of the faculty. He's from the Midwest. He earned his doctorate at Yale. He is an important community leader in Seattle and it is a pleasure for me to be able to introduce Father Sullivan to the committee.

Mr. FORD. Thank you, Mike, and thank you for your help on the Budget Committee. It was a little better this year than it has been.

With that, the prepared testimony of each of the witnesses will appear in the record immediately preceding the point at which they begin their comments. I would call first on Reverend Sullivan.

STATEMENTS OF REV. WILLIAM J. SULLIVAN, S.J., PRESIDENT, SEATTLE UNIVERSITY, APPEARING ON BEHALF OF THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES; JOSEPH M. CRONIN, PRESIDENT, MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORP.; AND CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Reverend SULLIVAN. Mr. Chairman and members of the subcommittee, I am very pleased to have the opportunity to be with you and to comment for a few moments this morning. A piece of testimony has been prepared and will be submitted to you. I would take just a very few minutes to highlight some comments on it.

I want to mention that I am here this morning speaking for the National Association of Independent Colleges and Universities which represents 850 colleges and universities across the United States. I presently serve as vice chairman of the board of directors. I do have a strong personal interest in the whole GSL Program, both in terms of my association with the National Association of Independent Colleges and Universities, and some years ago I was one of the incorporators of the Washington Student Loan Guarantee Association and have served as vice chairman of our guarantee loan agency during these past years.

My own institution, as Mr. Lowry said, is one that depends very, very vitally upon Federal financial aid. It is a metropolitan university, although an independent university. We have approximately 4,600 students—about 3,500 undergraduates, and 1,100 graduate students—involved very much in the education of urban individuals, a strong percentage of minority representation, and an area which I know is of considerable interest to Mr. Gunderson. We are, as a metropolitan university, very much involved in adult education; 49.7 percent of our students are over 25. So in that sense, it represents a broad range of students.

I am very pleased to appear before you today representing the NAICU membership. I am very pleased to be here with my colleagues from the guarantee agency and also from ACE. I would note that basically the testimony that we are presenting is very, very close to that which ACE has prepared and is presenting to you.

Let me, if I may, just say a few words about the National Association of Independent Colleges and Universities. It represents 850 independent, nonprofit colleges and universities. Last year, the NAICU institutions enrolled approximately 2.6 million students, which is about 21 percent of the students enrolled in higher education institutions, and the average price of education at one of these independent schools last year, for tuition and fee charges, was about $5,000, and for the total educational package, just a little over $9,000.

I would like to note, parenthetically, if I may, Mr. Chairman, that contrary to some testimony that has been heard before this committee in the course of the past months, the independent colleges cannot correctly be categorized as expensive, private institutions which are a luxury for the Federal budget. My own institution I think reflects that.

A study done by the Council on Postsecondary Education in the State of Washington several years ago showed that the average family income at Seattle University was lower than that at our sister institution, the University of Washington, which is the major State institution across town. I think my institution is much more characteristic of the 850 independent colleges and universities across the country than some of those to which some testimony here may have referred earlier.

Let me talk a little bit about the students, and particularly the importance of the whole Federal financial aid program for independent college students. The research arm of our association, which is the National Institute of Independent Colleges and Universities, conducts each year an exhaustive survey on the financial aid participation of our students. This survey this past year, or in 1983–84, the last year for which we have data, showed that 63 percent of all the students in independent colleges and universities receive some form of assistance from either the Federal Government, the State government, their own institution, or other private corporate sources. Eighty-four percent of those—in other words, about 46 percent of all the students in the independent sector—receive some form of Federal financial assistance through one or another of the programs.

I would note further—and I think, again, this is important—that the average family income of all recipients of Federal assistance in the independent sector was $22,100. If we exclude GSL-only recipients, the average family income of the other Federal programs was $17,600 throughout the entire independent sector.

What we found in terms of the type of assistance that these students received in this last survey was most disturbing, in that the participation of the needy students in the independent sector, in the Pell Grant Program, had declined from a high-water mark of 66 percent in 1979–80 to 39 percent in 1983–84. That is the category of the needy student for whom that program was really intended. Similarly, in the supplementary educational opportunity grants, recipients declined from 31 percent to 20 percent. The low-interest NDSL loans declined dramatically; work study opportunities declined slightly.

The result of all that, of course, is predictable, namely, that the needy students in independent colleges and universities found themselves increasingly dependent upon the GSL Program.

In the 4-year period of 1979 to 1983, the percentage of dependent needy recipients borrowing through the GSL Program increased from 24 percent to 65 percent, with the average loan going from $1,700 to $2,200. More distressing was the fact that the lowest-income students, with an AGI of $6,000 or less, were heavily dependent on the GSL to meet their educational costs.

The key point that I would like to focus on here is that it is this factual background of lesser availability of grant assistance and a greater reliance on loans for students who are attending or aspiring to attend independent colleges and universities that has led us to formulate a new policy and led us to submit recommendations to Mr. Ford and this committee in terms of the reauthorization.

It is for the reasons that I have just cited that we have developed a proposal to restructure the Pell Grant Program and target it on low-income students and to insert price sensitivity into the basic structure of the program. That is why we have recommended a revamped SEOG Program and that is why we have proposed that the GSL Program, which is the focus of our consideration today, be restructured to limit loans to need, with slightly increased maximum loan amounts for established students, with opportunities for students to consolidate their loans when they enter repayment, and with loan amounts not reduced by arbitrary origination charges. I would like to take just a couple of minutes to touch on those points, the focus of your consideration today.

With regard to the debt burden problem, what is of particular concern to us in terms of our own studies are the extraordinary levels of debt that our needy students in the independent sector have had to take on in order to attend independent colleges. Even more disturbing than the general rise in borrowing and debt limits among our aid recipients was our finding that our lowest income student aid recipients—again, those with family adjusted gross incomes of $6,000 or less—were just as likely to borrow the entire amount allowed under the law. Again, the cause is the decline in the other Federal grant programs upon which they have been dependent. Even though the independent colleges in the last couple of years have more than doubled the amount of institutional aid that they are putting into student aid, nevertheless this tremendous increase in the dependency of the very needy students has been seen.

Second, let me address the question of loan limits. We are recommending a selective increase in annual loan limits under the GSL Program to $5,000 for students who have successfully completed the first 2 years of study toward a bachelor's degree, and of $8,000 to all graduate students. Now, that rationale is very carefully worked out. It is our feeling that the present loan limit should be maintained for first year and second year students as they begin their college work, as they determine whether or not they're going to be able to proceed through a program. But as a student moves into the third and fourth year of a program, or moves on to a bachelor's degree institution, they have already demonstrated a commitment on their part to a college education and, second, they are also moving toward a point where their capacity to repay is more assured. It is for that reason that we are asking for a very selective increase in the loan limits, one that applies to third and fourth year students and to graduate students. We believe, then, that there is a need for this modest and selective increased in both the annual and the aggregate loan limits.

Let me come now to the third point, and this has to do with eligibility limitations. Here the National Association of Independent Colleges and Universities continues to urge a position which we ourselves adopted a number of years ago, and that is to say, we recommend a change in your eligibility limitations on the GSL Program that would allow students to borrow only if they demonstrate need—that is, after considering all other available kinds of aid and support—and further, that the amount of the loan for which they are eligible be limited to remaining need. We think that this is a very important change in the way in which eligibility is determined.

I don't have to tell all of you, because you are the experts in this area, that under the present system, if a student is eligible for a loan, they are eligible for $2,500—that is, if they're under the $30,000 cap. We propose that the arbitrary family income cap should simply be done away with and that in the case of every student the eligibility for the loan and the amount of money that they would be eligible for be determined by a process that results in a figure of remaining need. We have calculations to show that the cost savings to the total GSL Program over a period of years under a remaining need concept would really be substantial.

Finally, I want to make one comment with regard to loan consolidation. The NAICU is recommending very strongly a reauthorization on your part of the previous authority for students with high debt burdens from multiple sources to consolidate their loans. We think there is enough experience already to show that a really effective consolidation program will be of assistance to students in managing their debts in the future and in entering into a successful repayment program.

Once again, Mr. Chairman, we do have a number of other proposals relating to grant loan and work programs, together with the means used to determine student eligibility. However, I would like to stop with these comments and once again thank you very much for the opportunity of being with you and particularly presenting this testimony in the name of the 850 independent colleges and universities that are members of NAICU.

Thank you, sir.

[The prepared statement of Rev. William L. Sullivan, S.J., follows:]

Prepared Statement of Rev. William J. Sullivan, S.J., President, Seattle University

Mr. Chairman and members of the Subcommittee on Postsecondary Education, I am Father William Sullivan. I am President of Seattle University in the state of Washington and currently serve as Vice Chairman of the Board of Directors of the National Association of Independent Colleges and Universities. Seattle University is an independent institution enrolling 3,485 undergraduates in liberal arts, teacher education, nursing, business, and science and engineering, and 1,168 graduate students pursuing advanced degrees in business administration, education, counseling, psychology, rehabilitation, public administration, transportation engineering, and softwear engineering. Our 1984–85 average charge of tuition and fees for undergraduates is $5,975.

I am pleased to appear before you today to present the views of the NAICU membership on several policy issues you are considering for the Guaranteed Student Loan program. We submitted our recommendations for reauthorization of the Higher Education Act to the Chairman and to the Ranking Republican Member on April 30, and I have attached to my testimony a summary of those recommendations. And, I would note that we generally support the recommendations for GSL made by the American Council on Education.

But before I discuss our recommendations and our reasons for making them, I'd like to give you some background on the National Association of Independent Colleges and Universities, and provide you a snapshot view of student financial assistance as it existed on our campuses during the 1983–84 academic year, the last complete year for which data is available.

NAICU is an organization of 850 independent, nonprofit colleges and universities, and state, regional, or other special purpose organizations, based here in Washington, D.C. to provide a unified national voice for independent higher education. Last year, NAICU institutions enrolled 2.6 million students (approximately 21 percent of all students enrolled in higher educational institutions), and the 1984–85 price of education—the amount actually charged to students at registration—averaged $9,022, including an average tuition and fee charge of $5,016.

Let me note parenthetically, Mr. Chairman, that, contrary to testimony that you may have heard earlier this spring, independent higher education should not be categorized as "expensive private colleges" that become a luxury when federal budget deficits are large. Our charges to students are a truer reflection of the actual cost of the education offered than is the case in other types of higher education because we carry on without the direct operating subsidies provided by state taxpayers to reduce the tuition charged to public-sector students. Less than one-fifth of revenues for independent colleges and universities comes from governmental—federal, state, or local—funds, while income from tuition, fees, and services (bookstores, campus housing, etc.) extended to students contributes more than 63 cents of every dollar of operating revenue at our institutions. And, a substantial portion of that operating revenue, nearly $2 billion in 1983–84, was provided by our colleges and universities directly to their students in the form of institutional student financial aid. I would also note with pride that, although we enroll only 21 percent of all college students, we award 33 percent of all bachelor's degrees, 39 percent of all master's, 37 percent of doctoral degrees, and 59 percent of all first professional degrees.

Our research arm, the National Institute of Independent Colleges and Universities, conducted its fourth annual survey for academic year 1983–84 of 5,416 actual student records using a stratified, random sample of all independent institutions. NIICU found that 1.4 million students in independent colleges and universities (63 percent of all students in the independent sector) received student assistance from the federal government, their state government, their institution, or some other private source. Eighty-four percent of them (1.2 million students)—almost half of all independent sector students—received some form of federal aid. Seventy percent of all federal aid recipients were dependent on their families for support, receiving an average of $1,920 per student toward their college expenses, or 22 percent of the average price of education. More than 80 percent of our recipients were between the ages of 18 to 24. Ninety-six percent of our dependent federal aid recipients attend for the full academic year, and sixty-one percent live on our campuses. And, finally, the average family income of all recipients of federal assistance was $22,100, and if we exclude GSL-only recipients, the average family income was $17,600.

What we found in terms of the type of assistance they received was most disturbing, especially when compared to the surveys NIICU conducted in 1978–79, 1979–80, and 1981–82. The participation rate of our needy recipients in the Pell Grant program declined from the high water mark of 66 percent in 1979–80 to 39 percent in 1983–84, and average Pell Grant awards increased only slightly from $974 in 1979 to $1,164 in 1983. Similarly, for the Supplemental Educational Opportunity Grants program (the other major federal need-based grant program), the percentage of recipients/average award declined from 31 percent/$694 in 1979–80 to 20 percent/$650 by 1983–84 academic year.

Low-interest National Direct Student Loans declined dramatically, and work-study opportunities, together with state need-based aid, declined slightly over the same period. Even with institutions struggling to fill the gap by increasing their need-based student aid, the result of the reduced grant participation rates and average awards, and the declines in other programs, were predictable—more needy students in independent colleges and universities found themselves increasingly dependent on larger Guaranteed Student Loans to help finance their educations.

In that four-year period from fall 1979 to fall 1983, the percentage of dependent recipients borrowing a GSL had increased dramatically—from 15 percent to 57 percent, with the average loan also increasing from $1,787 to $2,249! More distressing was the fact that the lowest-income students (AGI of $6,000 or less) were as heavily dependent on GSL to meet their educational costs, with 57 percent from this lowest-income category borrowing an average of $2,259, as compared with 15 percent in 1979 borrowing an average of $1,400.

It is that factual background of diminished availability of grant assistance and greater reliance on loans for students attending or aspiring to attend independent colleges and universities, that caused our membership to adopt policy recommendations for reauthorization of the Higher Education Act designed to redress this imbalance between grant and loan support for needy students in general, and for the lowest-income students in particular.

That is why we developed a proposal to restructure the Pell Grant program to target the support on low-income students and insert price sensitivity into the basic structure of the program. That is why we recommended a revamped SEOG program that targets funding on students with the greatest need for funds, and ties appropriations for the two major federal grant programs more closely together. And that is why we proposed that the GSL program be restructured to limit loans to need, with slightly increased maximum loan amounts for established students, with opportunities for students to consolidate their loans when they enter repayment under income-related payment schemes, and with loan amounts not reduced by arbitrary origination charges.

Let me now turn to the specifics of our recommendations for GSL that are the subject of today's hearing.

Mr. Chairman, the Guaranteed Student Loan program continues to be an important program for students aspiring to independent higher education. In the twenty-year history of the Higher Education Act, we have seen the federal student aid programs bring about a radical transformation in the make-up of the college-going population, not unlike the result of the original GI Bill. Equal higher educational opportunity has become a reality only through the commitment of the Congress to ensure all qualified students the chance to pursue, with a measure of personal sacrifice, their higher educational aspirations.

DEBT BURDEN

Perhaps the most worrisome findings of our survey of student aid recipients were those relating to the extraordinary levels of debt our needy students have taken on in order to attend our colleges. Even more disturbing than the general rise in borrowing and debt burdens among our aid recipients was the finding that our lowest-income student aid recipients, those with family adjusted gross incomes of $6,000 or less, were just as likely to borrow as the entire recipient pool, with the great majority of these students borrowing the maximum allowed under current law.

When faced with the prospect of going into such high levels of debt in order to attend one of our colleges, many of these high school graduates will be forced to set their sights on other types of colleges, or no college at all. Our data already indicate that our most needy students are often required to borrow over four years a sum of money that is more than their entire family income in one year. In many cases students are borrowing more than twice their family's annual adjusted gross income.

This trend disturbs us not only because of the prospective financial plight of the student, but also because it endangers our commitment to serve students of all races and economic backgrounds. At independent colleges, we have more than doubled the amount of our institutional student aid in the last four years in order to preserve the ethnic and economic mix that is so crucial to the learning environment.

Just as we are concerned about our ability to bring students to our campuses, so are we concerned about what becomes of our students once they leave. Preparing students for careers of public service, teaching, social work, and the like, is considered by many of our institutions as central to their mission. Indeed, many of our colleges were founded with this as their sole purpose. But the rising level of student debt is beginning to affect these colleges because it is causing even the most capable and enthusiastic students to seek more renumerative careers in order to meet their loan repayment commitments.

As institutions that receive no direct subsidies from either state or local governments, we are dependent almost entirely on tuition revenues and gifts. Just as the large gifts from our donors are vitally necessary to our fiscal health, so too are the smaller gifts we receive from our alumni. We are deeply concerned over the effects student debt will have on the ability of our younger alumni to donate to their college. We believe that we are just beginning to see the negative impact of student debt on alumni giving and we are afraid this may worsen in the next decade.

Finally, we believe that we all must be concerned about the impact of growing student debt on our nation's economy. The same factors that will prohibit our students from contributing to their college will hamper their abilities to purchase homes, cars, and other consumer goods.

All of these expressed concerns do not mitigate the real need that certain of our students have for access to loan capital in order to complete their studies and move on to careers that will enable them to meet their loan obligations. We believe that loan eligibility can be structured in a way that will assist these students and at the same time safeguard the integrity of the program.

LOAN LIMITS

We recommend an increase in the annual loan limits under the GSL program to $5,000 for those students who have successfully completed two years of study toward a bachelor's degree, and to $8,000 for all graduate students. We also propose to increase aggregate loan limits to $20,000 for undergraduate borrowers and an additional $25,000 for graduate students. Currently undergraduate students are limited to $2,500, not to exceed their cost of education, and graduate students are limited to $5,000; aggregate limits are $12,500 for undergraduates, and $25,000 for graduate students, including undergraduate loans.

Although the aggregate limits have been adjusted in recent years, the annual maxima were set in 1972, when the GSL program still was considered to be a program offering a loan of convenience to middle-income families, and when the average tuition and fees at an independent college or university amounted to $2,500. In the intervening years, loans of convenience have become loans of necessity for those same middle-income students and even for lower-income students who generally are eligible for all other programs, and the average tuition and fees charged at an independent college has more than doubled.

Our students generally are borrowing the maximum available loan, and are doing so across income ranges. Students who qualify also are making maximum use of other federal, state and local, institutional, parental, and other private support. And, even in doing so, our average undergraduate student aid recipient still shows an average unmet need of $700; $2,687 for our average graduate recipient.

Thus, we believe there is a need for some modest increase in the annual and aggregate loan limits. But we also recognize the concern raised by some that such an increase would simply increase the amount of loan dollars in default as students are faced with ever increasing debt burdens. In an effort to address that concern, we have suggested that you limit eligibility for increased loan limits to those students who have a good record at paying back their loans—those who have made a significant enough investment of their own in pursuit of their higher educational goals. But, we also are concerned about increasing student debt across the board, which is what we fear would result from an across-the-board increase with automatic eligibility.

ELIGIBILITY LIMITATIONS

We recommend a change in the eligibility limitations on the GSL program that would allow students to borrow only if they demonstrate need in addition to financial support available to them from other programs, whereupon their GSL amount would be limited to that remaining need.

Currently, the program provides automatic eligibility for the allowable annual maximum to students whose adjusted family income is less than or equal to $30,000, and eligibility based on need for all other students. The existing limitation was imposed by the Budget Reconciliation Act of 1981 as a means of reducing federal expenditures by reducing the availability and amount of loans to students from families above $30,000 AGI.

We are concerned that the imposition of these arbitrary income limitations may have had two unintentionally negative effects on student borrowers. First, it may have discouraged eligible borrowers from applying for a GSL because they assumed they would not be eligible. And, secondly, it may have increased the debt burden for those in the category below $30,000 because they were automatically eligible for the full maximum loan.

We believe our proposal also carries an equity argument with it since it applies a single standard to each individual student's own family circumstances. In addition, budget savings can be achieved by eliminating the arbitrary income cap and replacing it with eligibility standards that limit loans to remaining need across all income categories.

LOAN CONSOLIDATION

We recommend a reauthorization of previous authority for students with high debt burdens from multiple sources to consolidate their loans.

The previous authority for the consolidation of student loans expired in 1983. At the time it expired, more than 31,000 students had consolidated their loans through the Student Loan Marketing Association (Sallie Mae). Their debt burden averaged more than $12,000, and almost two-thirds of them had atttended independent colleges or universities. We consider it a high priority that our students who have borrowed under different programs with different terms be allowed to consolidate those loans into one single repayment plan. Loan consolidation will also serve to eliminate situations of default attributable to confusion among students receiving multiple billing statements from different lenders at different times of the month. Most importantly, it is crucial for our students who are putting themselves into debt to pursue their educational aspirations with the confidence that they will be able to develop an affordable payment plan once they have completed their studies. For these reasons, we advocate a loan consolidation program that will allow early or extended repayment on a graduate or income-related schedule.

Mr. Chairman, we have a number of other proposals relating to grant, loan, and work programs, together with the means used to determine student eligibility for those programs which will be the subject of future hearings. I thank you for the opportunity to present our views on GSL issues today, and I will attempt to respond to any questions that you or other members of the Subcommittee may have about our proposals.

NAICU RECOMMENDATIONS FOR REAUTHORIZATION OF THE HIGHER EDUCATION ACT

TITLE IV—STUDENT ASSISTANCE

Student Grant Programs.—Continue the existing federal policy goal that every eligible student shall receive aid under the Pell Grants, SEOG, and SSIG programs that, in combination with reasonable parental and student contributions, will be sufficient to meet 75 percent of a student's cost of attendance.

Pell Grants.—Restructure Pell Grants in order to resolve the long-standing conflict among sectors of higher education over percentage-of-cost limitation/maximum award/funding triggers for other programs by instituting a new Pell Grant formula. The formula would target the program on low-income students and insert price sensitivity into the basic structure of the Pell Grant program, basing eligibility on a two-part formula: (1) half of tuition, mandatory fee, and book expenses for all eligible low- and middle-income students, up to a maximum of $2,100, *plus* (2) a substantial allowance to cover living expenses for all low-income students, up to a maximum of $2,100. This mechanism would award substantial grant dollars to low-income students for their living expenses plus half of their tuition expenses in order to assure their access to all types of higher educational opportunities, but would limit the participation of middle-income students to just half the "price" charged to them.

The proposal assumes the same taxation rates on discretionary income for dependent and independent students in order to provide substantial grants to low-income students and a $200 minimum award to a student from a typical family of four with one in college and an adjusted family income of $30,000.

Supplemental Educational Opportunity Grants.—Reauthorize the SEOG program with a funding authorization of no less than 15 percent of the appropriation for Pell Grants. Target SEOG funding on students with greatest need for funds (defined as those students whose expected family contribution is less than one-half of their total cost-of-education). Maintain institutional "hold harmless" level at amount institution used in academic year 1985—86 (FY 1985 appropriation). Allocate all new funding above the FY 1985 level only to those institutions whose institutional "Fair Share" exceeds their institutional "Conditional Guarantee." Reinstitute institutional matching requirement in program, with matching funds to come from non-federal sources. Drop use of institutionally-provided need-based student grants and awards from formula used to determine institutional need for SEOG.

State Student Incentive Grants.—Reauthorize the program and allow states to use up to 50 percent of new allocations, above FY1985 level, to establish or sustain a 50/50 federal/state matching work-study program.

College Work-Study.—Reauthorize the program without changing the language that limits CWS to non-profit institutions, without changing the existing reallocation procedures, and without consolidating the program with Cooperative Education. Allocate new funding above the FY 1985 level as in SEOG (see above).

National Direct Student Loans.—Reauthorize the program and rename the program for its principal advocate, the late chairman of the House Education and Labor Committee, Representative Carl D. Perkins.

Guaranteed Student Loans.—Reauthorize the program increasing the annual loan limits for those undergraduates who have completed their first two years of study toward a bachelor's degree and for graduate students to $5,000 and $8,000, respectively. Aggregate limits are increased to $20,000 for undergraduates and an additional $25,000 for graduate students. Limit all loans to need remaining after all federal grant, work, and loan benefits, together with all expected parental/student contributions are taken into account. Provide for borrower-requested consolidation of student loans. Repeal the origination fee. Provide for a federally-guaranteed, but not federally-subsidized, "loan of last resort."

PLUS Loans.—Reauthorize the PLUS loan program making it more attractive to lenders, and therefore a more viable program for borrowers, by allowing consolidation or refinancing of of loans, and by allowing secondary markets to adjust payment schedules with the borrower.

Master Calendar.—Establish a master calendar for the delivery of student aid in order that the student aid system may function smoothly.

Verification.—Require verification documentation to be submitted on all federal student aid applications.

TITLE III—INSTITUTIONAL AID

Reauthorize program with three separate parts: Grants strengthening institutions, grants to Historically Black colleges and universities, and Endowment grants. Alter eligibility criteria to include a wider body of institutions. Expand permissible uses of grant dollars to include recruitment activities and training of administrative staff. Make Cooperative Arrangements a high priority funding area with more lenient restrictions on participation.

TITLE VII—CONSTRUCTION, RECONSTRUCTION, AND RENOVATION OF ACADEMIC FACILITIES

Reauthorize title with emphasis on renovation rather than new construction. Increase funding authorization to reflect the increasingly critical need for assistance in this area. Streamline title by deleting unfunded provisions for loan insurance and interest grants. Delete community college setaside provision so that all types of institutions compete equally on the merits of their applications.

Mr. FORD. Thank you, Father Sullivan.

Mr. Cronin.

Mr. CRONIN. Thank you, Mr. Chairman.

I am Joseph M. Cronin, president of the Massachusetts Higher Education Assistance Corp. and chairman of the board of the New England Educational Loan Marking Corp., sometimes known as Nellie Mae, Sallie Mae's little sister. I would like to address the issue of educational loan limits.

My prepared comments are really entirely as my role as the administrator of a student loan guarantee agency. I can't help but comment that I am also a parent and happen to have seven children, three of whom have graduated from college already, two will be in college next year, and two are waiting in the wings in high school and presumably will be in college in several years.

The Congress faces three issues in raising student loan limits. No. 1, what new loan limits are needed and justifiable? Second, how might the GSL Program be restructured to minimize cost to the Government? And, third, will students with more to repay default more?

First of all, the $2,500 per year loan limit set in 1972 has never been increased. The aggregate loan limits, of course, have been, and we are very, very grateful and the students are grateful for that, as are the universities. The $2,500 limit has not risen with inflation or with the cost of living, or with the cost of education.

In the early 1970's, $2,500 covered almost all of the cost at most public colleges, and up to two-thirds of the cost at private colleges. Now it pays less than half the costs at a public university and less than a quarter of the costs at many independent colleges and universities. In fact, in 1985, at hundreds of colleges, a GSL doesn't not even get a student to the first midterm exams. If we do the multiple disbursement, it will pay probably for about the first month of the first semester and the first month of the second semester. The need for revision is especially severe in the Northeast, and certain sections of the Midwest, and Far West where the independent school cost of education is in the $10,000 to $20,000 a year range.

The Nation now has more than 20 years of experience with guaranteed student loans. What have we learned? No. 1, that banks, backed by State guarantors, have a good to excellent record in collecting student loans and keeping the default rate low.

Second, that every Federal dollar for GSL generates more than twice as much capital for student loans as a direct grant would. In 1984, $600 million in Federal appropriations made possible $7 billion in new GSL loans, and the entire GSL Federal cost was approximately $3.5 billion. That's pretty good leverage.

The Congress can be proud of its record of providing loan funds to ensure all Americans access to higher education. How can this record be continued and improved upon?

None of us wants to add to Federal deficits. We favor tougher default prevention measures, including tax offsets and garnishment of wages, modified interest subsidies, and revised repayment options.

One option is to authorize and explicitly encourage graduated repayment plans. For example, a student, instead of paying $200 a month for the life of the loan, might pay $125 initially, $200 after 5 years, and $275 later. These increments will recognize that earnings for college graduates escalate over time.

In other words, we talk about students graduating and being $10,000, $20,000, and $30,000 in debt. We have to take a look at the fact that the lifetime earnings of a college graduate in the 1980's will be $1 million. For those with master's degrees or doctorates, it is quite likely to be $2 million or $3 million over their working lifetime, 35 to 40 years. So the initial debt burden may look high, especially if we look back to our own college careers

We do not oppose a decrease in subsidies for loans for graduates several years out of college. My colleague, Ken Reeher of Pennsylvania proposed last year that the Congress could ask for a one-half percent increase in a graduate's repayment schedule each year until he or she is paying at market rate. That could decrease the cost of the program over time. The Nation should subsidize students in school, not middle-income professionals who can pay substantially more than 5 percent on NDSL or 8 percent on a GSL.

Now, an Assistant Secretary of Education has been quoted as saying: "Raising loan limits is no way to curb defaults" but he ignored the National Commission on Student Financial Assistance research which found that generally the more education a person receives with the help of loans, the less likely a person is to default. Sallie Mae, in setting up their consolidation program—and the rest of us at the States, in working with them—found that the persons with loan amounts totaling $10,000 or more were the best prospects for repayment and experienced a default rate of about 1 percent. The World Bank study of student loan programs in more than 40 nations found that you can arrange national policy so that default rates can be kept low, so the people can work in inner cities, can work in social service occupations. We can design programs like that. Certainly if we can for the foregiveness programs in the military, we can do it on the domestic side. The use of education loans actually helps to make education more efficient. We rarely hear today about people lingering at the university 6 or 7 years to complete their doctorate; if they have loans, they want to finish, get out, and be productive, and get into repayment. The evidence from these various reports makes us confident that loan limits can be raised without increasing default rates.

The National Council of Higher Education Loan Programs recommends that loan limits be increased to $4,000 for undergraduates and $8,000 for graduate students. Others recommend, as Father Sullivan just said, a sliding scale of limits so that a freshman could borrow $2,500, a sophomore perhaps $3,500, juniors and seniors $5,000, and graduate students $8,000 or $10,000.

Certainly there is merit to these proposals. My colleagues from New York, for example, recommend that to cut the risk of urban dropouts and defaults, first-year students should rely mainly on grant and scholarship money. At the same time the committee should consider loan limits as high as $10,000 for graduate and professional school students, with an understanding that each 2 years of education adds substantially to lifetime earning power and to decreasing chances of default. With more education, the more a student borrows, the less likely he or she is to default.

We believe that loans should never be an excuse for failing to increase grant and scholarship funds. But we know that loans are needed as self-help and as supplements and that loan limits can be increased without risking increased defaults or substantial cost to the Government.

Thank you, Mr. Chairman.

[The prepared statement of Joseph M. Cronin follows:]

STATEMENT OF DR. JOSEPH M. CRONIN, PRESIDENT, MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORPORATION

EDUCATION LOAN LIMITS—1986-1991

The Congress faces three issues in raising student loan limits:

1. What new loan limits are needed?
2. How might the GSL program be restructured to minimize cost to the government?
3. Will students with more to repay, default more?

The $2,500 per year loan limit set in 1972 has never been increased. It has not risen with inflation, the cost of living or the cost of education. In the early 1970's, $2,500 covered all of the cost at most public colleges and up to two-thirds the cost at private colleges. Now it pays less than half the costs at a public university and less than a quarter of the costs at many private colleges. At hundreds of colleges in 1985, a GSL does not even get a student to the first midterm exams. The need for revision is especially severe in the Northeast and certain sections of the Midwest and Far West where the independent school costs of education is in the $10,000 to $20,000 range.

The nation now has twenty years of experience with guaranteed student loans. What have we learned?

1. Banks, backed by state guarantors, have a good to excellent record in collecting student loans and keeping the default rate low.
2. Every federal dollar for GSL generates more than twice as much capital for student loans as a direct grant would. In 1984, six-hundred million dollars in federal appropriations made possible seven billion dollars in new GSL loans. The entire GSL federal cost was approximately three and one-half billion dollars.

The Congress can be proud of its record of providing loan funds to ensure all Americans access to higher education. How can this record be continued and improved upon?

None of us wants to add to federal deficits. We favor:

tougher default prevention measures including tax offsets and garnishment of wages,

modified interest subsidies, and

revised repayment options.

One option is to authorize and explicitly encourage graduated repayment plans. For example, a student instead of paying $200 a month for the life of the loan, might pay $125 initially, $200 after five years, and $275 later. These increments will recognize that earnings for college graduates escalate over time. We do not oppose a decrease in subsidies for loans for graduates several years out of college. As Ken Reeher of Pennsylvania proposed last year on the issue of student loan consolidation, the Congress could ask for a 1/2 percent increase in a graduate's repayment schedule each year until he or she is paying at market rate. The nation should subsidize students in school, not middle-income professionals who can pay substantially more than 5 percent on NDSL or 8 percent on loans if necessary.

An Assistant Secretary of Education has been quoted as saying, "Raising loan limits is no way to curb defaults." He ignored the National Commission on Student Financial Assistance research which found that the more education a person receives with the help of loans, the less likely a person is to default. Sallie Mae found that the persons with loan amounts totalling $10,000 or more were the best prospects for repayment and experienced a default rate of 1 percent or less. The World Bank study of loan programs in more than 40 nations, found that default rates can be kept low, and that the use of loans helped make education more efficient. This evidence makes us confident that loan limits can be raised without increasing default rates.

The National Council of Higher Education Loan Programs recommends that loan limits be increased to $4,000 for undergraduates and $8,000 for graduate students. Others recommend a sliding scale of limits so that a freshman could borrow $2,500, a sophomore $3,500, juniors and seniors $5,000, and graudate students $8,000 or $10,000. My colleagues from New York recommend that, to reduce defaults, first year students rely mainly on grant and scholarship money. The Committee should consider loan limits as high as $10,000 for graduate and professional schools students, with an understanding that each two years of education adds substantially to lifetime earning power and to decreasing chances of default. With more education, the more a student borrows, the less likely he or she will default.

We believe that loans have not been and never should be an excuse for failing to increase grant and scholarship funds. But we know that loans are needed as supplements and that loan limits can be increased without risking increased defaults or substantial cost to the government.

Mr. **Ford**. Thank you.

Mr. Saunders.

Mr. **Saunders**. Thank you, Mr. Chairman. I appreciate the opportunity to be with you this morning to discuss recommendations for changes in the Guaranteed Student Loan Program on behalf of organizations representing all major sectors of higher education, including community colleges, 4-year public and independent institutions, and the research universities. There is broad consensus, as our testimony notes, on issues affecting the Guaranteed Loan Program.

Broadly, we believe, with the National Commission on Student Financial Assistance, that the Guaranteed Loan Program is an essential and cost-effective program. It provides loan capital for about a third of all students enrolled more than half-time in higher education. It is targeted effectively to serve low- and middle-income families. Forty percent of undergraduate borrowers had family incomes under $15,000. Seventy-one percent had family incomes under $30,000, and over 98 percent of GSL recipients have family incomes under $60,000.

The problems of the program are essentially a result of its success. As grant funding has been held level or failed to keep pace with inflation in recent years, GSL, which had originally been intended as a secondary source of assistance, representing 13 percent of all Federal aid as late as 1978, has become, of necessity, a primary source and now represents over 40 percent of all Federal assistance. This imbalance between grants and loans is of major concern, as has already been addressed by my colleagues this morning. It imposes a growing burden of debt on students and their families, and it poses serious questions for our society.

The major focus of our recommendations for title IV, therefore, are an attempt to restore the balance between grants and loans, and we look forward to outlining those recommendations for you at a later date.

As far as our guaranteed loan recommendations, we are proposing to make substantial savings in the program so that benefits may be increased to reflect rising costs while holding future increases and program costs to a minimum to make possible that needed expansion of grant assistance.

Our recommendations fall under three headings: First is increasing benefits and discouraging excessive debt, and to do that we would raise the loan limits, as has already been discussed. We agree that the emphasis should be on grants and work for the first

2 years of the undergraduate experience, so we would propose only that loan limits be increased $500 for the first 2 years. For the final 2 undergraduate years we would increase loan limits to $5,000 and to $8,000 for graduate and professional students.

Aggregate loan limits we propose to increase to $20,000 for undergraduates and $40,000 for graduate and undergraduate combined. We estimate that that would tend to increase the annual volume of the program about 10 percent.

We would also remove the limits on parent loans entirely under the PLUS loans and we would also eliminate the origination fee to restore the value of individual loans. We recognize that that is an expensive item. It would cost about $440 million in the first year to eliminate that origination fee, and that is the basis for some of the cost-saving recommendations we are making.

Under the second category, making repayment more manageable, we would propose that repayment be extended beyond 10 years for borrowers with heavy debt, and we also urge the restoration of loan consolidation authority. We recommend essentially what this subcommittee did in developing legislation along these lines at the last session of Congress.

Our third recommendation is under the heading of strengthening the equity and integrity of the program while minimizing cost increases. First, we would limit borrowing to unmet need. I should note in passing that this does not represent a complete consensus in the community but we are recommending it purely and simply to save costs. Our proposal for remaining need is similar to that proposed by the administration, but with two important stipulations. First, that discretionary income be taxed at the same rate for independent as well as dependent students, and second, that the expected contribution of graduate students not be based on parental resources, which leads me to our recommendation to replace the definition of independent students with an age criterion, requiring that parental income information be provided for all students below the age of 22, except for orphans and wards of the court, married students with legal dependents, veterans and graduate students. We would also provide broad authority for the institution to waive this requirement in individual cases where independence can be documented. We feel while this is similar to the definition proposed by the administration, it is a great deal more equitable because it takes account of the needs of the independent student.

Essentially what we are proposing is that a totally verifiable simple test be applied instead of the current test, which is basically unverifiable.

These two proposals to limit borrowing to unmet need and to change the definition of independent student would, in combination, achieve annual savings we estimate on the magnitude of $200 million.

We would also propose to increase the interest rate from 8 to 10 percent, which we feel is reasonable in light of CBO estimates that T-bills through 1990 are expected to average over 8 percent. This, again, is a pure and simple cost-saving measure that we estimate would save $450 million.

We also support the NASFAA recommendation for multiple disbursement of loans, which would save at least another $200 million a year. So that by the time these proposals are fully implemented, our total recommendations for cost reduction would add up to something in the order of $850 million in program savings, which would amply cover the cost of increasing loan limits, which we feel is essential, and it would also cover the cost of eliminating the origination fee and restrict the future costs of the program to a point where this committee can pay primary attention to the need for increasing the grant side.

That concludes my statement, Mr. Chairman.

[The prepared statement of Charles B. Saunders, Jr., follows:]

PREPARED STATEMENT OF CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to present recommendations for the Guaranteed Student Loan Program, on behalf of the associations representing the nation's colleges and universities.

The Guaranteed Loan Program is the largest student aid program, providing over $7 billion a year in loans to over 3 million borrowers. As such it is a vital means of meeting educational costs at all kinds of postsecondary institutions, especially for students at higher-priced and graduate institutions. It has grown enormously in recent years from the small program which provided fewer than one million students with less than $1 billion in loans in the mid-1960's. It now provides loan capital to almost a third of all students enrolled more than half-time in higher education. It effectively serves its targetted population of low-income and middle-income families: in 1983–84, 40 percent of undergraduate borrowers had family incomes under $15,000; 71 percent under $30,000; and over 98 percent under $60,000.

But the very success of the program has brought a series of related problems. Appropriations for the federal grant programs have declined or failed to keep pace with inflation in recent years, even though increasing numbers of students became eligible. In consequence, appropriations for the entitlement Guaranteed Loan Program rose steadily as the demand for loans necessarily increased. What had been intended as a secondary source of assistance, providing 13 percent of federal student assistance in 1978, became the primary source and now represents over 40 percent of all federal student assistance. This imbalance between grants and loans is imposing a growing burden of debt on students and their families, and raises concerns about the implications of this trend for our society. Proposals to restore the balance by increasing emphasis on the grant programs are the major focus of our Title IV recommendations which we hope to outline for you at another time.

It is important to note that the cost of the GSL Program has risen only partly because of the large increase in borrowers (most of whom do not begin repayment for at least three years). Because the special allowance for lenders is tied to 91-day Treasury bill rates, the recent period of high interest rates has resulted in about 37 percent of annual appropriations being allocated to lenders, not to students. Federal expenditures to cover defaults have also grown, and will continue to increase in future years as the higher volume of outstanding loans moves into repayment—even though the net default rate has declined in recent years and stabilized at slightly under 5 percent.

As a result, the GSL has become the target of numerous proposals by the Reagan Administration to reduce its size and cost. Some of these recommendations would radically reduce the amount of federal subsidy, severely limit student eligibility, and threaten collapse of the program by eliminating essential incentives for voluntary lender participation.

In contrast, the National Commission on Student Financial Assistance, in its two-year examination of federal student aid programs, found the GSL Program to be a cost-effective mechanism for providing loan capital to students and recommended continuation of the in-school interest subsidy and the special allowance to lenders, with periodic congressional review to assure that the special allowance is adequate to attract sufficient private loan capital at the lowest possible federal cost.

The institution-based higher education associations support the general conclusions of the Commission on the GSL Program. While we make no specific recommendations for the change in the return to lenders and the reimbursement of state agencies, we endorse the periodic assessment of the administrative structure involving the lenders and state agencies. We would support any changes to reduce costs as long as they do not jeopardize the basic operation of the program. Our primary recommendations are intended to improve the level of benefits available to students and parents while discouraging excessive student borrowing; to make repayment more manageable and to minimize defaults; and to strengthen the equity and integrity of the program while minimizing cost increases.

INCREASING BENEFITS WHILE DISCOURAGING EXCESSIVE DEBT

Loan limits need to be increased for undergraduates, graduate and professional students, and parents to reflect increases in the cost of college attendance since the existing limits were established. When the annual limit for undergraduates was set at $2500 by the 1972 Amendments, it covered the average annual cost of a college education; today it covers less than 40 percent of the average annual cost.

We believe that the student aid package during the first two years should emphasize grants and work, with as little borrowing as possible. Therefore we propose that the annual loan limit be increased by only $500 for the first two years of postsecondary education, from $2500 to $3000. Restricting the amount which students can borrow during the first two years of postsecondary education will give them a chance to establish an academic track record and develop a better idea of career plans and future earning capacity. Providing minimal loan limit increases during this period will also minimize program costs associated with higher loan limits and discourage excessive debt and default.

For the last two years of a four-year undergraduate program, we recommend an increase in the annual borrowing limit to $5000, a modest increase relative to the average annual cost of independent institutions which exceeds $10,000. For graduate and professional study, we recommend an increase in the annual limit from $5000 to $8000. For aggregate limits we recommend changing the current ceilings of $12,500 for undergraduate and $25,000 for undergraduate and graduate cumulative to $20,000 for undergraduates, and $40,000 for a combination of undergraduate and graduate programs. We estimate that the recommended increase in loan limits could increase annual loan volume by approximately 10 percent.

Also to minimize excessive student borrowing, and to encourage parents to use the less-subsidized Parent Loans to Undergraduate Students (PLUS) program, we recommend removing limits on parent loans made under PLUS. While we make no specific recommendations to make PLUS loans more attractive to lenders, we call the Subcommittee's attention to the technical legislative changes proposed by the National Association of Independent Colleges and Universities which would allow lenders to refinance and to facilitate the purchase of parent loans.

To improve benefits further, we also support eliminating the origination fee, which arbitrarily reduces the amount of funds available to students. This regressive requirement was mandated by the 1981 Reconciliation Act simply to reduce the cost of the program to the federal government, and is inappropriate as a long-term solution to program costs. There are better ways to constrain program costs, to which I will turn shortly. Elimination of the origination fee would restore the value of individual loans. It would increase program costs by approximately $440 million in FY 87.

MAKING REPAYMENT MORE MANAGEABLE

To accommodate the student indebtedness permitted under the above proposals, we recommend that the repayment period be extended beyond 10 years for borrowers with heavy debt burdens when entering repayment.

As another step to make repayment more manageable, we propose the restoration of the loan consolidation authority which expired in 1983. The language we support to accomplish this is similar to the language of HR 3394 as reported by this Subcommittee during the 98th Congress. The only major change we would propose is to establish the interest rate as the weighted average of the rates on the loans consolidated. Extended repayment would be allowed on a graduated basis for borrowers with heavy debt burdens. Loan consolidation would be open to all eligible lenders to assure broad access to the program. Reestablishment of loan consolidation authority could have the effect of lowering default rates over time.

As a further step, we recommend amendment of the current prohibition against the charging of excessive insurance premiums by guarantee agencies, to stipulate instead that insurance premiums not be charged on consolidation loans. This would eliminate possible double payment of the premium on both the underlying loans and the consolidation loan.

STRENGTHENING THE EQUITY AND INTEGRITY OF THE PROGRAM WHILE MINIMIZING COST INCREASES

To minimize unnecessary student borrowing, we propose limiting eligibility for the GSL program to students with unmet need, and limiting the amount of the loan to the amount of unmet need. (This recommendation does not have a complete consensus in the community: it is not supported by AASCU.) Thus we would drop the current provision which permits applicants with family incomes up to $30,000 to qualify for a maximum loan regardless of need. This would foreclose borrowing to meet expected family contributions to all eligibles, not just those over $30,000. This recommendation is similar to a proposal made by the Administration, but it is important to note that we endorse it with the following stipulations:

(1) that expected family contribution for all Title IV programs be computed in the same way for all students, whether or not their parents' financial resources are included in the calculation. Currently students who are financially independent of their parents, even those with dependents of their own, have much higher expected family contributions than students who are dependent on their families. Many low-income independent students would lose eligibility if the requirement of unmet need were to be imposed under the current system.

(2) that, as part of the new requirements for financial independence, the expected contribution of graduate/professional students not be based on parental financial resources. At this level parents generally consider their children responsible for financing their own education; we therefore propose that the eligibility of graduate and professional students for Title IV aid should be based only on the student's own resources.

To avoid potential program abuse, we propose to replace the current definition of independent student with an age criterion (22), below which parental financial resources must be included in computing expected family contribution for all Title IV programs (except the SSIG program), including the GSLP. Exceptions from the age 22 rule would be made for students who are orphans, or wards of the court, those who are married or have legal dependents, veterans, and graduate and professional students. An institution could waive the requirement of parental financial data in individual cases where independence can be documented. This is similar to the definition proposed by the Administration in its FY 86 budget documents, but is more equitable because it provides necessary exceptions for non-traditional students.

While we agree that GSL recipients should have a legitimate need for federal assistance, we do not believe that the Administration's proposal for an arbitrary income cap is an equitable way to ration eligibility. If Congress desires to limit eligibility, we would prefer to accomplish this goal by making need analysis more restrictive, since need analysis can take into account unusual family circumstances.

To help reduce the cost of GSLP, we propose increasing the GSL interest rate from 8 percent to 10 percent. This seems reasonable in the light of projections by the Congressional Budget Office that Treasury bills will average slightly above 8 percent through 1990. If interest rates increase or decrease significantly from this estimate, Congress should review the appropriateness of this rate. This recommendation reflects our objective of targetting the largest program cost increases provided in the reauthorization process on the grant programs, the actual benefits of which have been seriously eroded by inflation in recent years. We also believe that as long as reasonable safeguards are built into the program to keep pace with the amount students can borrow—such as repayment terms that insure that student debt is manageable—borrowers can reasonably be expected to repay their loans at interest rates which are closer to market rates once they have entered the world of work. Decreasing the federal subsidy on interest rates will also minimize the amount of special allowance which is necessary to sustain lender involvement.

Another cost reduction measure we support is the recommendation of the National Association of Student Financial Aid Administrators to require multiple disbursement of loans, and to pay the special allowance to lenders only on the amounts disbursed, not on the total amount of the loan. Assuming that multiple disbursement is required on all loans, savings could exceed $200 million per year. The change would also tend to reduce defaults by students who do not complete their educational program.

As another measure to improve administration of the program, we recommend restoration of the authority for a modes ($10 per student) allowance to reimburse colleges for part of the costs they incur in managing the requisite forms and files. This allowance will encourage institutions to exercise due regard for appropriate counselling of borrowers as well as proper administration of the program.

We estimate that our recommended cost savings through restricting eligibility to unmet need, revising the need analysis definition and procedures for self-supporting students, increasing the GSL interest rate to 10 percent and requiring multiple disbursement of loans will result in a total reduction of approximately $850 million in annual program costs. This estimate is for savings once the changes are fully realized, rather than first-year savings. (Some of the changes will have more immediate impact than others: for example, basing eligibility on the amount of the students' unmet need would reduce loan volume and thereby result in cost savings in the first year of implementation; whereas increasing student interest would not impact on program costs until the new borrowers enter repayment.) Over time, the net savings would approximately cover the cost of increasing loan limits and eliminating the origination fee.

CONTINUATION OF THE NDSL PROGRAM

In addition to our recommendations for the Guaranteed Loan Program, we support a continued institutional role in lending under the National Direct Student Loan program. We propose that priority for Direct Loans be given to low-income students, for several reasons: (1) the benefits of combining loan origination with counseling by the financial aid officer at the time aid is packaged, (2) the ability of the aid officer to adjust loan size for the individual student, making small loans which are not attractive to commercial lenders, and (3) the flexibility which the institution has to grant forebearance during repayment. We believe that these are important factors in justifying the continuation of NDSL even while making GSL entirely need-based.

NDSL is still needed as a supplemental program geared to needier students, assuring the availability of smaller loans and more flexible terms than may be available under GSL. Institutions have an incentive to make small loans, rationing scarce capital and thereby limiting student debt. The incentives for commerical lenders are quite the opposite: to make large loans and reduce their number of transactions.

In addition, the federal cost for Direct Loans is competitive with that for Guaranteed Loans, and could be subtantially less expensive with minor modifications.

In summary, we believe the Guaranteed Student Loan Program is an essential element in the nation's commitment to assuring opportunities for all students who have the will and the ability to obtain a postsecondary education. We strongly oppose any changes which would substantially restrict the program or threaten the continued participation of commercial lenders. We urge the Subcommittee to increase loan benefits to recognize substantially increased college costs. Without question this will increase program costs, but we recommend a number of steps to reduce unnecessary borrowing and strengthen administration of the program so that future increases in program costs may be held to a minimum.

Of equal importance with our GSL recommendations are our detailed proposals for changes in Pell Grants and the campus-based programs to restore the balance between grants and loans. We look forward to discussing these with the Subcommittee at a later date.

Mr. FORD. Thank you.

Mr. Saunders, let me start with you. You made a statement on the record that your exemption to the 22-year age would include married with dependents. I looked at your formal statement at the bottom of page 6 and your recommendation in the formal statement is "* * * those who are married or have legal dependents." There is a very significant difference.

Which do we leave standing on the record?

Mr. SAUNDERS. It's both. It's correct as it appears in the testimony, Mr. Chairman.

Mr. FORD. So that the unmarried parent with one or more children would be independent, just as the married parent of children would be independent?

Mr. SAUNDERS. You're correct.

Mr. FORD. Thank you.

Mr. Cronin, you said that you would recommend the garnishability of student loan indebtedness. Why isn't it garnishable now?

Mr. CRONIN. It is, Mr. Chairman. It requires a fairly cumbersome court process to make that judgment. In one of our States, Pennsylvania, they have arranged for a short form process by which wages on student loan defaulters can be more readily and easily garnished, and I think it has resulted in increased recoveries from student loan defaulters. Of course, just the threat that it can be done, without taking 6 or 8 months through an elaborate appeals process, is a deterrent, as the news gets around that you can't walk away from a student guaranteed loan.

Mr. FORD. Is your association recommending that the statute provide a requirement that States permit garnishment of student loan defaulters?

Mr. CRONIN. Our association did a report on about 15 different techniques to curb defaults and cut down on the default rate. That was one of the ideas considered. We have not endorsed formally a kind of Federal intervention. I was just using that as an example, to say that we favor some very aggressive means, including the use of both Federal income tax refund offset and State tax offsets as tools to convince the American public and convince students that they have got to pay their loans back.

Mr. FORD. Well, garnishment is a statutory remedy to creditors that is afforded by State law. I'm very hesitant about the idea that we mandate a change in something that is as old and established as the garnishment laws. There is a good deal of difference between the States, not on what kind of a debt you can make subject to garnishment, as much as there is on how you go about it. The rights of creditors are quite different toward a married person with dependents in my State than they are toward a single person with no dependents, and there's a difference in income levels. The purpose of those State statutes is to prevent a combination of creditors from literally wiping out the paycheck and killing the goose that lays the golden egg. So that what the State statutes tend to do is say "you all can have a piece out of this person, but you can't have it all at once because you have to leave them something to live on so they can continue to work."

I would not want us to get in a position of saying, notwithstanding the limitations that are in the State on how many garnishments you can serve on anybody in one pay period, you could come in on top because it happened to be a guaranteed student loan, at this point presumably owed to the Federal Government, and have a preference. Because we don't do that for other kinds of Federal indebtedness. I wouldn't want the record to indicate that there is something in the present law that prohibits States now, if they choose to do so, from treating indebtedness for a student loan exactly the same as any other indebtedness.

Having said that, what is wrong with leaving it to the States and let you people work on the States to change their garnishment laws?

Mr. CRONIN. That's certainly an option we will pursue.

Mr. FORD. I'm suggesting you're in the wrong forum for that remedy.

Father Sullivan, you mentioned—and Charlie Saunders came along and complemented it—that this problem of loan limits has to go with the whole debt burden question. What bothers me is to watch the erosion of the relative value of grant money to the cost of education, and the constant cost increase in all forms of education has made fixed allocations such as the grants less and less valuable as a percentage of the purchasing power necessary to obtain a year of education. We have seen this shift of a few years ago, where 25 percent of the money was being provided by GSLs and 75 percent from other sources, to a 50-50 split. I don't regard that as good. It's an inadvertent policy that has occurred by the inability of the Congress for a period of years to respond to the realities of the marketplace and increasing the amounts of money necessary. The Pell grant, even though we expect it to be $2,100 this year, will be worth about 40 percent less as a portion of the cost of an average education than it was when we had $1,800.

That has us doing something that bothers a lot of us, and that is that the Guaranteed Student Loan Program was originally conceptualized by the committee in 1965 as sort of an add on emergency device that the middle class that didn't qualify for the low income grant assistance would use to fill in the gaps. We actually, quite naively, in 1965 pictured what we now call middle class people using that program and the lower income people being serviced, if at all, by loans by the then 3 percent direct student loans. Now we know that has changed, and as your figures indicate, more and more people from low income backgrounds are borrowing more and more money through this program.

There is nothing wrong with that when viewed in terms of our objective of providing access for those people to the education of their choice. But there is a concern when we see the figures on people coming out of graduate school with these tremendous debts. I guess there is a social problem that you and your church might understand in that we actually discourage people from getting married if they have gone to school at about the same time and both of them have got debts because all they do is consolidate their woes.

I have always believed as a public servant that anything that discouraged marriage as an institution was not sound public policy. It has been said by our courts in a variety of ways over all of the history of this country. But you have come up with an idea that seems to me bears possible solution to part of the problem, while solving a part of the other problem, because you tie the increase and the ability to borrow in any given year to the progress made in school. I find what you say about the probabilities of their ability to repay to be very persuasive.

We know that consistently all of the studies that are done on the default rate indicate the dropouts are the worst risk and that the further they go in school the better the experience. One might normally expect that, but it seems to work out that way when you look at the figures on who isn't in repayment at a given time.

That offers an alternative that has an appeal to me because it says there will be at least some way to deal with a student who really isn't going to do that well and make it all the way through. We would keep that student from getting too deeply into debt for an education that they can't identify as a valuable asset to them afterward. That might be one of the ways out of the dilemma that we have been facing for a number of years in dealing with the Guaranteed Student Loan Program.

I have had pressure on me, particularly from graduate schools, for years on the loan limits. We did increase to $5,000 at graduate schools. Years ago it was ridiculously low. That is not practical. I have tended always to oppose going up with those loan limits because I feel very worried—Mr. Cronin mentioned that we ought to have the wit to devise a system that will still leave people available for public service. If we continue to go in the proportions and the direction we're going in now, we will soon, if we haven't already reached that stage, find ourselves in the position where the people with the strongest motivation to public service—and I'm talking about public service with spiritual rewards and not financial rewards—are going to be locked out of the system because 6 months out of school they have got to start making payments that demand that they take a job that has a sufficient income to pay back this indebtedness. This might suggest a way to relieve that concern and I, for one, would hope that as we go along we can—and I know we can count on the people at the table—work on how to implement this in a way so that it will be creditable and understandable.

I do recognize I am doing something here now that I have asked all the members of the subcommittee not to do: We're talking about something that in the first instance will probably increase the cost of the program. We can't calculate exactly how much that is. But compared to the other factors that influence the cost of the program, at least that is static and it is somewhat predictable. What interest rates do in the next 5 years can make everything that we are contemplating in this legislation look pretty silly, and what it did in previous periods has demonstrated that to us. The high cost in this program has been generated more by the action of the marketplace and the price of money than it has by access of students or student utilization of the program. We spend more and more money without buying proportionately that much more education because we are paying for education that has already been delivered at some time in the past. It's sort of like our national debt. We are looking now, very soon, at $2 trillion, with a debt service of 10 percent. That means before you start buying a book or a brick or anything else you have got to find $200 billion to pay the bankers. Now, everybody has come to recognize that that isn't working out for us.

Reverend SULLIVAN. It seems to me, sir, that the suggestion that you're discussing is a question of a differentiated loan limit, depending upon the stage of the student's penetration.

Mr. FORD. You say that also in the context of a needs analysis for every loan applicant.

Reverend SULLIVAN. That's right, a combination of those two, plus——

Mr. FORD. You would have to have them together.

Reverend SULLIVAN. In my own personal experience with Washington State guaranteed loans, the third element that I think has given excellent results out there is a requirement which we have in our own agency for multiple disbursement. In other words, another way to control that problem of a large amount of money going front end into a program which is not successfully completed, even for a given year, is a requirement—and you heard testimony on this question yesterday from our director, Mr. Donovan. But the combination of the remaining need concept graduated loan limits that you were just discussing, plus a very strenuous multiple disbursement program, the combination of those could exercise a very salutory control on the costs of the program, both present and future. I think they do fit together, as you were just suggesting.

Mr. **Ford**. Charlie, when you mentioned the needs analysis for everyone, you seemed to be suggesting but didn't say that that would include—you said something to the effect that there would be a determination of actual remaining need, which presumes that there would be a requirement that in packaging an aid package a student loan officer would be required to make a determination that all other forms of non-repayable money—scholarships, grants, work study or whatever—that that student qualified for had been visited and this was what's left.

Mr. **Saunders**. That's correct, Mr. Chairman.

Mr. **Ford**. So what you're coming down to is virtually a requirement that every student who would qualify for a Pell grant will apply for one, and then his remaining need would be the difference between the size of his Pell grant and what he would now borrow if he didn't get the Pell grant.

Mr. **Saunders**. That's correct.

Mr. **Ford**. Thank you.

Mr. Coleman.

Mr. **Coleman**. Let me just continue with that line of questioning, Mr. Saunders.

What is the family contribution aspect in your proposal then? Does that take into consideration before the non-Pell grant?

Mr. **Saunders**. Yes.

Mr. **Coleman**. I assume that all three of you are opposed to any form of income caps to determine eligibility; is that true? All of you are nodding your head in the affirmative.

Mr. **Saunders**. There's a paragraph to that effect in my statement.

Mr. **Coleman**. Right. I wanted to confirm that.

My second question is, do all of you support a universal-needs analysis for all programs?

Mr. **Saunders**. Yes; we would assume a single-need analysis for all Federal programs in statutory form.

Mr. **Coleman**. Do all three of you agree?

Reverend **Sullivan**. Yes, we would. And the other element in that, Mr. Coleman, which is very important, is some sort of a uniform method of determining what is allowable as living costs, because that has been the elastic element in the present system. I think there is a requirement, or it seems to me there is a need for some kind of statutory direction to either the individual States or the institutions on that issue, because that has been the very elastic element. But with that included, I think a uniform analysis which would be usable then for the various grant and loan programs would be excellent.

Mr. **Cronin**. I do want to point out a few reservations, and I want to point out that the short-form need analysis used for the GSL, for the income range from $30,000 up to the $70,000, has, in fact, worked well, and that every time we add the more cumbersome, full-fledged need analysis, we just increase the paperwork burden on the students, the families, as well as the colleges, and perhaps on he State agencies as well. We have done well, and I think there has been very little criticism of the short-form need analysis for those over $30,000.

Also, in most States those families who have incomes below $20,000 or below $25,000 are filling out the FAF or the equivalents right now to qualify for the Pell grants and the like. There is really a fairly narrow band of people making between $20,000 and $30,000 who are not filling out some form of needs analysis. I just want to predict that if we have a need analysis, the same methodology, we will increase the paperwork burden; if we add multiple disbursement, which does save money, there will be additional technical and operational problems. That will make it cumbersome and more difficult to get the funds out on time. Each of these improvements over forms will add to the paperwork burden, which is already quite substantial.

The current system of needs analysis I don't think is working that badly.

Mr. COLEMAN. Mr. Cronin, do you have any personal knowledge of families with $100,000 incomes who have participated in the GSL program, and if so, under what circumstances did they participate?

Mr. CRONIN. Yes, Mr. Coleman. When we saw that—of course, there was quite a bit of national attention to that particular disclosure by the Secretary. So, having a pretty good computer data base, we checked to see if we had some of those folks in Massachusetts and we, in fact, did.

One of the most interesting cases was a medical doctor making in the vicinity of $125,000 a year. Of course, if you look at the first few items on the need analysis, you say, "No way should this person qualify for anything," until you realize that this person had two children in medical or dental school paying in the vicinity of $19,000 to $20,000 a year tuition, that there were also two other students—it was a family of five children—two students attending independent colleges as undergraduates, that the total tuition payments by that family were in the vicinity of $58,000.

Now, this person was paying taxes—we don't have that on our data file, but presumably $30,000 or $40,000 in taxes. The parent is also taking out all the PLUS loans, the parent loans, that can be provided, at least for the undergraduate students, and is actually losing ground each year and will for 3 or 4 years. Then, of course, both the parent and the students will be repaying it.

The needs analysis shows that the family is, indeed, expected to contribute a substantial sum. Apparently that family will be paying most of the $58,000. The GSL's would provide $5,000 for the two undergraduates and $10,000 for the two going to medical and dental school combined.

Mr. SAUNDERS. Mr. Coleman, could I just add that we can find no basis for the Secretary's estimate of 13,000 or 14,000 students from families over $100,000 receiving loans. We think that is an erroneous estimate based on faulty data. The few instances we have been able to identify, such as Dr. Cronin mentioned, are families with a large number of children in school. We had one case reported to us of a family with 10 children in college, if you can believe that. It was apparently the remarriage of two divorced families.

Mr. CRONIN. The "Brady Bunch."

Mr. SAUNDERS. Those are the kind of exceptions that are over $100,000. Most of those figures probably came from people who have PLUS loans and shouldn't have been counted in the first place. We just think that's a totally phony charge that the Secretary has made.

Mr. COLEMAN. Under the existing GSL program can the loan itself be used as part of the family contribution?

Mr. CRONIN. The GSL, yes; PLUS, no.

Mr. COLEMAN. It is my understanding the Department has looked at this as a possible regulatory change. What would be the impact if they did not count the loan proceeds against the family contribution?

Mr. SAUNDERS. Currently you can't use the loan for a parental contribution if your family income is over $30,000. That's part of the inequity of the way the system operates right now, that a family with income under $30,000 could conceivably use part of the loan for parental contribution and going to remaining need. In that sense, it makes it more equitable because it means that no families will be able to use guaranteed loans for their parental contribution.

Mr. COLEMAN. If we move to remaining need, is there a minimum loan that you feel would have to be made? Has this been discussed with the lending community?

Mr. SAUNDERS. Most of the legislation we have looked at in the past has provided for some kind of minimum loan of a thousand dollars or so. There is a problem there and, really, the concern that the American Association of State Colleges and Universities has with going to remaining need is over the small loan issue.

Mr. COLEMAN. One final question of Father Sullivan and Mr. Saunders. You both mentioned the concept of moving to a more extensive loan package in the third and fourth year and complement that with, I assume, more would be granted aid in the first 2 years. Has any cost analysis been made on what it would cost the Federal Government to implement such a concept? Obviously, you would have to increase the maximum grant, would there be any other cost factors involved?

Reverend SULLIVAN. With reference to being able to do both of those things, yes. The National Association of Independent Colleges and Universities has done some estimates of that, and I think you have some of that material that has been submitted to you.

It would be possible, under our estimates, to substantially increase the Pell Grant Program on the lower income side, and really substantially increase it, and then balance that off. As we talked about with the GSL Program, the increase in the Pell Grant Program under that proposal would be approximately $1 billion, in a sense to first of all hold everybody harmless, but to increase significantly the Pell grants to the very low income students. The cost of that, on one estimate that we have done, would be approximately $1 billion.

Mr. COLEMAN. Is that net cost or have you factored in fewer defaults?

Reverend **Sullivan**. No, there is not a factor in there for fewer defaults. That's the GSL Program running pretty much as is, but a substantial shifting of the Pell Program toward the sort of deep need, lower income student.

Mr. **Coleman**. Thank you.

Mr. **Saunders**. Mr. Coleman, I would just add that I don't know how you can derive accurate estimates of that because it's pretty hypothetical. We estimate in our testimony that increasing the loan limits as we propose would probably increase the volume of the program by about 10 percent. But I don't know how anybody can derive a really accurate estimate because—I mean, if you assumed that Congress was going to fully fund the Pell Grant Program, it's conceivable that increasing the loan limits would not increase the volume. It depends. The participation rate depends on the availability of grant funds. So I think it's a very iffy situation. But our recommendations are specifically to balance the improvements in the program we have recommended with cost savings, which at least will more than match those costs.

Mr. **Coleman**. Thank you.

Mr. **Ford**. Mr. Gaydos.

Mr. **Gaydos**. Mr. Saunders, with all due respect, you dismiss that article that appeared in the paper and had wide notoriety with the fact that they're all phony figures. Now, just because you say they're phony doesn't make them so.

I think you would be in a situation where you could probably collect detailed data and make it available to the committee and let's discount it that way. Could you do that?

Mr. **Saunders**. We would be glad to.

Mr. **Gaydos**. I think it's very important because it's a public indictment to the program. It makes it difficult for those of us who support it, in the face of accusations such as that that receive repeated recognition, and factually, supposedly are authentic. I don't think you will win many converts by saying it's phony, just because you say so.

Mr. **Saunders**. We did put out the facts on it at the time the Secretary made his statement, but unfortunately——

Mr. **Gaydos**. Get them in the record here. I would like to see them myself.

Mr. **Saunders**. Unfortunately, it is very difficult to catch up with those statements once they are made.

Mr. **Gaydos**. Reverend Sullivan, I have just one question because of the problem of time we have.

On page 11 in your submitted and accepted written statement you say, if I'm quoting properly, "we believe there is a need for some modest increase in the annual and aggregate loan limits." There are people who believe there is a very definite need for an increase based upon many factors. But following through on your statement, you also then qualify it by saying:

> But we also recognize the concern raised by some that such an increase would simply increase the amount of loan dollars in default as students are faced with ever-increasing debt burdens.

Now, my question involves your next two sentences. "In an effort to address that concern, we have suggested that you limit eligibility for increased loan limits to those students who have a good record at paying back their loans, and those who have made a significant enough investment of their own in pursuit of their higher educational goals." You again then raise a question.

My question is, aren't you talking about that typical student which we're trying to help? What kind of a loan repayment record would he have? Would he be a graduate student and be paying on his undergraduate loan? How does that fit in, because I don't understand it? I think it's a very sensitive element of our problem again.

Reverend SULLIVAN. You're certainly correct, sir. It is. I think the statement that you referred to there has to be interpreted to mean categories of students; that is to say, as Mr. Cronin said, there is a fairly substantial body of evidence now on repayments and defaults.

If you take categories of students, such as those that preserve into senior college or third and fourth year, those that get into graduate and professional programs, the repayment records on those students as a class is very, very good. That is the reason for the proposal, which is in a slightly different form in Mr. Saunders' testimony, to continue limits on those first and second year students, but then as the student moves into those categories—it isn't the individual student who has the good record because he may not have any record, he or she—but certain categories of students whose repayment records are very good and whose default records are very poor, to increase selectively the loan limits in the case of those categories of students.

That, I think, is what that sentence meant.

Mr. GAYDOS. I'm trying to follow you, but I am confused. I don't pretend to be the most receptive individual as far as that complicated subject matter. But I am very confused. Because if we talk about a first and second year student, if you're projecting them into a third and fourth year student, and ultimately a graduate student, then you come back in that category, you're suggesting that students in that first and second year have shown, for want of a better term, a good record of paying back their loans. I don't know how it retroactively fits into the picture.

Reverend SULLIVAN. No. Let me see if I can put it this way.

Let's say if we took first year postsecondary students——

Mr. GAYDOS. All right.

Reverend SULLIVAN [continuing]. Whether they're in the first year of a vocational school, a community college, a university, whatever it may be. The evidence is that the default record on students who only go into first year and never go beyond—in other words, they drop out some time in their first year, or at the end of their first year—the evidence I have, if my records are correct, is that the default rate on that body of first year only and never go beyond is 17 percent.

The default record on graduate students and professional students over a long period of time is 2.5 percent. So what we are suggesting is limit the amount of money you're going to give to a freshman student on a loan, and maybe do the same with sophomores, because you don't know if that student is going to go on. But as the individual student moves into upper divisions, third and fourth year, they become a better risk. And as they move into graduate school, you go to $8,000 or whatever because the evidence is that that category is a much, much better risk.

Mr. **Gaydos**. I understand it now. Thank you.

I have no further questions.

Mr. **Ford**. Mr. McKernan.

Mr. **McKernan**. Thank you, Mr. Chairman.

I would like to follow up on that with a question about cost. Mr. Saunders talked about increasing the GSL's by $500 for the first or second year and focusing more on grants and work for those first 2 years.

What would that do to the cost of the program? It seems to me that even if the limit is increased by only $500 in the first 2 years, but significantly after that, it is going to cost more to run the program.

Mr. **Saunders**. That's why we estimate that it will increase the volume of the program about 10 percent. In an annualized cost, that may mean another—up to $400 million, roughly, somewhere in that ballpark. That is what we have assumed in making our other cost-saving recommendations. We have assumed that changes will be made in the program which will make it possible to increase the loan limits without any further overall cost to the program.

Mr. **McKernan**. The next question is regarding grants and work. If we're not going to authorize an increase in GSL's—a substantial one for the first 2 years—are we going to have to put more money into grants?

Mr. **Saunders**. Absolutely, Mr. McKernan.

Mr. **McKernan**. You're saying, then, that there would be no net increase in the GSL Program but there would be an increase in the grant program?

Mr. **Saunders**. We would certainly hope so, yes.

Mr. **McKernan**. I liked your explanation better before I found that out. [Laughter.]

Let's talk about repayment. I believe it was Mr. Cronin who talked about a graduated payment schedule. It is my understanding that 85 percent of the cost of the GSL Program is incurred during the repayment process, in servicing old loans. In addition to graduating the payment as people have been out in the work force longer and are earning more money, how would you feel about also decreasing the Government subsidy?

One of the questions I hope we can explore in detail over the next 20 hearings is whether or not the interest rate that students have to pay has much of an impact on whether they use the GSL Program. My inclination is that the real benefit of the program is not having to pay until after you get out of school, and that an extra percentage point here or there farther out in the payment period probably isn't going to have a deleterious effect on the people in the program.

Mr. Cronin, you first, and anybody else that wants to comment on that.

Mr. **Cronin**. Yes, I think your question essentially is, as the person graduates from school, gets a good job, could they afford to pay more than 8 percent on the loan, can you decrease the subsidy over time. I think we would have to plea for some compassion and mercy. Don't raise that thing jaggedly the first 6 months they're out of school. We have suffered by shortening the grace period from 9 months to 6 months.

But it is certainly true that in the third, fourth, or fifth year out on the job, a large proportion of our students could afford to pay more than 8 percent and, indeed, are buying very fine automobiles—and I know that's important to Michigan to hear that——

Mr. McKERNAN. We certainly wouldn't want to interfere with people being able to buy a fine car from Michigan. [Laughter.]

Mr. CRONIN. They are buying condominiums and they're paying market rates for those other services, and they could afford to pay back the investment in their education at market rates.

Mr. McKERNAN. The goal of this program must be to provide the opportunity for people to get a higher education, but when you're talking about $200 billion deficits, you have to reexamine a lot of these programs. I am not sure, from the standpoint of equity, that it isn't better to tell people making $40,000, $50,000, $60,000 a year 8 years out of school that they're going to have to pay a little more so we can increase the grants for students in the first couple of years.

Mr. SAUNDERS. Mr. McKernan, we would agree with that. I would just note that the National Commission on Student Financial Assistance conducted a study a couple of years ago on what the GSL interest rate was in real terms. The study found that, adjusted for inflation, the effective rate over the life of the loan was close to zero. In other words, the effect of inflation over the years is such that in many instances the interest rate was less than zero over the life of the loan. So we are confident that the interest rate could be increased as a way of saving money in the program and place more emphasis on the grant side.

Reverend SULLIVAN. I would just say, in terms of your question about how much effect would that have on a student going into a loan, I would agree with you; I don't think it would have a great effect, the idea that over a period of time the interest rate will be increased.

What I think would be important, if it could be balanced off, is the elimination of the origination fee, because the origination fee is money out of the pocket of the student precisely when he or she is a student. The prospect of that origination fee, which was an ad hoc solution to a very particular problem at one point in the history of the program, would be eliminated, but a graduated increase in the rate paid in outyears I think would be something that would not have a negative effect on the benefits that we're looking for from the program.

Mr. McKERNAN. I appreciate that.

One final question, if I may, Mr. Chairman. Congressman Gunderson had to leave and he wanted to ask Father Sullivan the following question:

In your testimony you said over 49 percent of your students are adults, and he wanted to know how they are affected by the present needs analysis in both the GSL and the Pell grant.

Reverend SULLIVAN. The difficulties that are experienced by many adults have to do, in certain programs, with the requirements for what percentage of time you are in school—in other words, the half-enrollment sorts of requirements—because many of the 25-plus students are the kind of individuals who are taking one course a quarter and working their way toward a degree. I think the prejudice that there is in some of the programs has to do with those requirements for the degree of enrollment.

We had our commencement on Sunday and I was privileged to hand a diploma to a 68-year-old woman who had first enrolled at Seattle College in 1940. It wasn't that she was in school during that entire time, but she came back about 3 years ago to finish a degree.

I think the recognition that part-time students are a growing and integral part of American higher education—the Carnegie Commission has estimated that by 1990, 50 percent of all postsecondary students will be over 25, and the overwhelming majority of those will be part-time students. So I think, in looking at reauthorization, the degree to which a sensitivity to those people in terms of the part-time/full-time issue would really be very, very helpful.

Mr. McKERNAN. Thank you.

Thank you, Mr. Chairman.

Mr. FORD. Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman.

In the interest of what I know to be a short time, because I understand this is the first panel and you have two others to hear from—and I suspect that we're going to be interrupted regularly by the bells—I just have one statement with a question for Mr. Saunders.

I was just looking at your prepared testimony and you say, in the second paragraph, the Guaranteed Loan Program is the largest student aid program, providing over $7 billion a year in loans to over 3 million borrowers; that it has grown enormously in recent years from the small program which provided fewer than 1 million students with less than $1 billion in loans in the mid-1960's, and now provides loan capital to almost a third of all students enrolled more than half-time in higher education. It effectively serves its targeted population of low and middle income families. You said in 1983 and 1984 40 percent of the undergraduate borrowers had family incomes under $15,000; 71 percent under $30,000; and over 98 percent under $60,000.

I am concerned that as we proceed to deal with reducing the deficit, and the kind of pressures that are now being put on our whole educational system which could lead to the elimination of some of these grant programs which we now have, do you have any figures to indicate what percentage of these figures that you cite, in terms of the income levels, are minorities?

Mr. SAUNDERS. I believe we can supply those figures for you, sir.

Mr. HAYES. I would like to have them because I suspect that you will find, in 90 percent of the borrowers in that $15,000 category, will be blacks or Hispanics.

Mr. SAUNDERS. We would be glad to provide that.

Mr. HAYES. I am concerned about whether or not they're going to be dealt out of the whole opportunity for higher education if this Federal assistance is diminished in any way. Therefore, I think we have got to find some other way to reduce our deficit besides making it more difficult for these students to get into school.

Now, the trend seems to be, based on the proposals, where you say appropriations for Federal grant progams have declined and failed to keep pace with inflation in recent years, even though increasing numbers of students become eligible, I think you will find an acceleration of that if these proposals we are now looking at, in terms of trying to devise a ways and means of reducing the deficit—we're going to find out that more and more people are going to have less opportunity. I just wanted to make that comment.

Do you agree or share my opinion?

Mr. SAUNDERS. I share your opinion, Mr. Hayes, and I certainly think, if you look at the grant programs, those programs are targeted much more directly on the very neediest students than the loan programs. I think that is a good positive record of targeting for the Guaranteed Loan Program, as I have cited.

But to hear Mr. Stockman talk, you would think this money is being thrown around to people with all kinds of incomes. The fact is that for all the grant programs, all Federal grant programs, 50 percent of the recipients have incomes under $12,000 a year; 67 percent of all recipients have incomes under $18,000 a year, and 81 percent have incomes under $25,000, 90 percent have incomes under $30,000, and 95 percent of Federal-aid recipients have incomes under $36,000 a year. So we think the programs are doing a pretty good job of targeting to the students who need it.

Mr. HAYES. I hope it continues. I would like you three gentlemen to please share your opinions with some of my colleagues in the House of Representatives, as to what kind of adverse impact it can have on our whole educational system if we pursue the course that is now being suggested by Mr. Stockman.

Mr. FORD. Mr. Henry of Michigan.

Mr. HENRY. Thank you, Mr. Chairman.

In the last couple of days, particularly at the hearing yesterday, we had medical students give us a picture of the tremendous amount of indebtedness that is occurring in these programs. I certainly would not disagree with my colleague, Mr. Hayes, in terms of trying to continue to assure equal access to educational opportunity. But I am struck with the perils in this program. Where we talk about availability, the costs get out of hand. We are going to have to come up with something like DRG's—ERG's, educational related groups—measures, disciplines. We have a system that in some ways is overbuilt. Perhaps to a certain extent the loan programs are driving enrollments rather than enrollments driving the loan programs.

Those aren't nice things to say. It's a problem we'll have to look at. I will stop now because of the time, unless——

Mr. FORD. Let me just respond to you, Paul, with this. We had a very detailed study of the 10 years leading us into 1982 that showed that tuition costs across the board, public and private, increased an average of 7 percent during that 10-year period. For more than half of that 10-year period, the cost-of-living index was in excess of 10 percent. The parallel with health care delivery breaks down, when you look at the fact that the health care cost annual increases have never been below 10, and frequently have doubled the cost-of-living index, the cost of education attributable to the institutions has actually lagged well behind or has been held well below the cost-of-living index.

However, when we are dealing with these numbers in the cost of education, we are talking about more than tuition payments that go to the institution. It costs more in our State for dormitory and food at the University of Michigan than it did 10 years ago, and if you go off campus, the rents are higher. It costs more for gasoline if you're a commuter. All of the other attendant costs of staying alive while you're in school have kept up with the cost-of-living index, not with the cost of education.

So if you want to look at where the real increase has been, you have to look beyond tuition, which has been held by most—as you know, in our State, we have the dubious honor of having the highest cost public institution in the country in terms of tuition. Nobody in the State of Michigan ever adopted a policy to have that happen, but we went through some bad years—and you were in the legislature—and we didn't have any money for them. They had to try to make it up. Now the State has been minimizing or ameliorating that condition a little bit, but it doesn't do anything to catch up with the increasing cost of staying alive for a year in the State of Michigan. So these costs will continue to go as other costs in the economy go, and we will continue to add whatever it takes to stay out of the work force and in school.

I hope you keep that in mind when talking about cost containment, because the way to get cost containment, it involves really price fixing and something far more dramatic than fixing just that part of the cost you can attribute to the colleges and universities.

After the Secretary made his statements about all the money that the colleges and universities had that they weren't spending on students, we have done a nonscientific check around to find out what is going on. We find that actually during this period of 10 years the proportion of the endowments and the money collected by the schools from outside sources that has been applied directly to supporting students has gone up, that the commitment of the institutions to help students has actually increased when measured in percentage of cost.

It is more dramatically, I think, in the private schools, in the independent schools, than in the others, but it is very clear that there is a pattern of that sort of thing happening. The anxiety that they had over the proposal in the tax law to take charitable deductions away demonstrated very quickly to us how much these insitutions were starting to rely on outside constributions. They become absolutely ingenious in ways to collect money from not only their alumni but from the business community and from the community at large and work at it more aggressively than ever in the history of education.

Mr. SAUNDERS. Mr. Chairman, I wasn't clear on Mr. Henry's question. I thought you were suggesting that higher education was overbuilt and there were too many people in higher education. I just have to say we have no evidence of that, although there is a great deal of evidence that higher education programs are underfunded. But despite the growth of student aid, there is still a substantial number of very able people in this country who do not go to college, primarily because they don't have the resources.

Mr. HENRY. I would not contest that. I am aware, for example, that we have programs and first-rate institutions that have been designed and reorganized simply around available student aid, designed specifically to target students who could not get into or would not attend preexisting institutions.

In some cases there are racial, ethnic, and socioeconomic factors behind this targeting by institutions and programs. But the same thing happens due to political logrolling and the political reasons for expanding university systems.

Now, some of what I am reflecting is the unique problem we have in Michigan because of the tremendous outflow of people and the economic reversals in our State. But somehow we have to address those issues, to get the economies of scale and efficiency right.

I guess I would say in some ways we are overbuilt, particularly in my State. That is not the same as saying that the public is fully serviced.

Mr. FORD. Mr. Dymally.

Mr. DYMALLY. Mr. Chairman, I want to save my questions for the next panel.

Mr. FORD. All right. Mr. Solarz is next.

Mr. SOLARZ. I think Mr. Atkins was here ahead of me.

Mr. FORD. I'm trying to stay out of trouble by following the order of seniority of your assignment to the committee.

Mr. DYMALLY. Mr. Solarz is usually very generous.

Mr. FORD. Mr. Solarz yields his time to Mr. Atkins.

Mr. ATKINS. That's all right. I'm getting more of an investment day by day in the seniority system. I will yield back so we keep the system that the Chair has established of seniority.

Mr. SOLARZ. I appreciate that, but go ahead. [Laughter.]

Mr. ATKINS. I will proceed then, with caution.

I would just like to focus a little bit on the question of the default rate. What seems to have happened with the default rates over the last 5 years or so is that they have slowly declined to a period now where we're a little bit under 5 percent and we seem to have stabilized at that level.

I had two concerns about that, one of which is that it seems that from reviewing those data, when you look at it broken down on a State-by-State basis, there are fairly wide variations between the States in that default rate that gets us a national average of slightly under 5 percent, and the reason for that seems to be the point that the chairman addressed himself to earlier, which is that most of the capacity to collect on delinquent loans is governed by State laws which vary tremendously, whether it's the garnishment laws or the willingness of State legislatures to allow intercepts of tax refunds for the purpose of repaying student loan obligations.

I am curious from the panel members, particularly Mr. Cronin, how they feel about establishing some kind of limit so that States that were well over the national norm for defaults would have some kind of penalties. I think the chairman was quite correct in suggesting that the Congress not get involved in telling States what kind of garnishment laws they should have. On the other hand, I don't think it's fair to have some States that are very lax with those laws going out and essentially forcing other States to subsidize their defaults.

Mr. CRONIN. Congressman, first of all, there is a gross default rate, which is about 5 percent, and then a net default rate, which is the default rate after recoveries. So we pursue these students for 6 or 7 years, just as long as we can. We get——

Mr. ATKINS. I was referring to the net default rate.

Mr. CRONIN. Second, in terms of some States differing, there are penalties built in right now. Those of us in States that have been able to keep it below 5 percent are entitled to 100-percent reinsurance. But if it goes between 5 percent and 9 percent, then the State has to absorb a 10-percent share of the defaults. If it goes above 9 percent—and it has in several States—then the State has to absorb 20 percent. So there is a powerful incentive system and it is driving many of us to multiply techniques, not only punitive ones like the tax offset, but also loan counseling, requiring exit interviews after college, explaining what the repayment burden is, and what the techniques are. In Massachusetts, we just put out a pamphlet on repaying your student loan, discussing all the problems that could come up, as well as all the rights like extensions and——

Mr. ATKINS. Don't you feel, though—I mean, the present penalties are really teeny when you think about 10 percent and then 20 percent, when you're talking about some States that have a default rate that is double what the national average is.

In reauthorizing this legislation shouldn't we put substantially higher penalties in for those States and for the lenders in those States?

Mr. CRONIN. Well, this is a program that depends on lenders and schools and the States and, of course, the Federal Government backing all three up. It may not be that we should punish the States. In some cases we should take a look school-by-school at the default rate, or lender-by-lender, on diligent collector techniques.

One of our States experimented by cutting off some schools that had a default rate above 20 percent, and they were brought in before this committee to explain how could they do that. Now, the Secretary of Education can do that under NDSL for the campus loans, and there is some merit to it. When Ted Bell cracked down about 3 years ago on those colleges who had a default rate in excess of 20 percent, you should have seen the scurrying on the part of campus leaders to go out and either hire collectors or collection firms to get that rate down.

Now, there has been a dramatic reduction in NDSL default rates when the Secretary used the authority that he had in existing statutes. Now, we at the State level are not arguing for it, but if visited upon us, we would certainly use it as ways to take those schools that seem to be very, very careless on loans—but combine it with required counseling and other devices to tell students what their responsibilities are.

Mr. ATKINS. I think you're correct. Obviously, there are positive and negative incentives. I would agree with you, that both for States and for institutions within those States, that we ought not, while certainly some level of defaults are going to be an inevitable consequence of the program, that we ought not tolerate people that are wildly above their norm.

The other concern that I have is just if you have a sense, with the recommendations you have made, as to what is a tolerable or reasonable level of defaults, or what is a target that we should look at for a net default rate after we pass this statute and include new provisions to cut down in defaults? Is there any kind of consensus as to what is a reasonable figure to have for defaults?

Mr. **Cronin**. There have been studies by consumer bankers, what's the default rate on automobile loans, personal loans, or credit cards, and, of course, there's a tremendous variety. Some consumer loan programs are as low as 1 percent, but others, including credit cards, can get up as high as 6 and 8 and 10 percent. I don't think there is any consensus either in the banking community or in the guaranteed loan area.

Mr. **Atkins**. As part of putting this legislation together, shouldn't we try and establish that kind of consensus? It seems to me that the single greatest bar to our meeting the need for student financial assistance is a general sense in the public, an undefined sense, that there are too many defaults and that people are getting away with too much, and it is hard to determine whether that's the case or not.

Mr. **Cronin**. But you have a statement in the existing statute that says under 5 percent is where the Congress wants this Default Program to be. When you talk to people in social settings or back in the district, they will say yes, it should be 5 percent or under. They don't like to hear reports of 15 or 20 percent. That outrages them.

Then when you say we have already passed laws to grab the Federal tax rebates, people say that's good because these people should not get away with it. When you hear the States are doing three, four, and five different measures to pursue, that the U.S. attorneys in some States are cracking down and seeing——

Mr. **Atkins**. As part of reauthorization, shouldn't we look at a figure that is below that 5-percent figure that we presently have? I mean, it seems that that's certainly achieveable. Maybe a 3-percent figure is more——

Mr. **Cronin**. We will take a look at that, Congressman, and see if we can—but, you know, some of it depends on the States. We've got States where people never move from the farming areas where they grew up. They go to college and they go back and work on those farms or ranches, where the default rate is 1 percent. Then we have the bustling, complicated metropolitan areas. We have factors like prolonged unemployment in areas where mines have closed down in certain sections of Colorado, for example.

How can you know, 3 to 5 years in advance, that a 1 percent or a 3 percent or a 4 percent is exactly right for every State in every region of the country? How can you penalize either the school or the bank or the State if the economic forces are beyond the control of all three?

I think it is good to set a goal or a target, and if the committee says 3 percent or 4 percent is the desired goal, and we'll either provide some incentives or some additional tools, we would accept that as a goal.

Mr. **Ford**. Before we go on, let me just point out for the committee—as Mr. Coleman has pointed out to me—that on June 19 the panels that will be here will be here for the express purpose of discussing defaults, the Coleman collection bill and collections generally. What we are trying to stay with today is debt burden, loan limits, the repayment income cap, and need analysis. I think we are losing the valuable opportunity we have with the panels we have today if we spend too much time on a subject we're going to be taking up again in a couple of weeks.

Steve?

Mr. SOLARZ. Thank you very much, Mr. Chairman. I basically just have one question.

Father Sullivan, if I understood you correctly, you were suggesting that it would be helpful if we increased the amount of grant moneys available to defray the costs of higher education because of the increasing burden of these loans which people are taking out and finding very difficult to repay. Yet, at the same time, you also indicated that an analysis of the interest rates which people have to pay when they get these loans suggest, that in many instances, the real interest rate is zero and, in some cases, less. It might make sense, therefore, to have a more realistic rate of interest and that presumably, somehow or other, this would make more money available for grants.

Yet, to the extent that we do provide loans to students to enable them to meet the costs of higher education, isn't it better to give them low interest loans than high interest loans? Given the fact that a repayment obligation does constitute a burden, albeit a legitimate one, it does seem to me that we have an interest in not overburdening people. The repayment obligation should not become so onerous that it significantly diminishes the quality of student's lives, or is so great that they don't take out the loans in the first place because they calculate they simply won't be able to repay them. So it is not clear to me why you think they would be better off by having a higher interest rate in real terms than we now have?

Reverend SULLIVAN. Let me see if I can respond, and please stop me if I get off on the wrong track.

I think all of us would feel very, very strongly that the in-school interest subsidy is absolutely critical; that is to say, the ability of the student to obtain assistance while they're in school and not employed.

On the question of what kind of a repayment schedule is presented to them, I think a couple of constructive suggestions have surfaced in this testimony. One is the graduated payment, so that you don't begin with a level of monthly payment which is going to continue for 10 years, but that builds up as your income and capacity builds up, and second, the question of even an adjusted interest rate during that period.

The point, sir, of the recommendations here about the increased grants has to do very specifically with the low-income student. In other words, the burden on the low-income student coming from extremely modest backgrounds, going into a very heavy loan program, seems to us to be a real negative and to be very discouraging. I think there is evidence that, you know, people coming out of middle-class backgrounds, whether it is the family training or tradition, can handle that sort of a perspective more easily. That is why we are proposing, in a sense, a more realistic, if you will, GSL Program in terms of loan limits and repayment schedules, but at the same time taking very great caution that we are not depending simply upon a GSL Program for the real low-income students, because it seems, for a series of factors, to constitute a much greater future burden for them.

Mr. Solarz. I take that point. But are you, in effect, suggesting that the increased revenues from the loan repayments, owing to a more realistic interest rate would, in effect, be used to fund an increase in the grant programs? Do you believe that the net consequences to the Treasury would be a wash?

Reverend Sullivan. As probably the ranking amateur in this entire room, I really don't know how those figures sort out. But in very general terms, I think that could be true.

Mr. Solarz. One other question, and that is for any of you who care to answer.

To the extent that we have a meaningful needs analysis as a condition for receiving assistance, should there be any income cap? In other words, if you can demonstrate need, what does it matter what your income is? And if you can't demonstrate need, then it——

Reverend Sullivan. I think that's a common position here.

Mr. Saunders. That's certainly our position. We would oppose any arbitrary income cap. If you want to refine or tighten up eligibility, the way to do that appropriately is to do it through tightening up the need analysis.

Mr. Solarz. Do you think there is a need for tightening up the needs analysis, and if so, how would you tighten it?

Mr. Saunders. Well, we have recommended a change in the definition of the independent student. As we have outlined in our testimony, that is a way of tightening up. But that is our primary recommendation on that.

Reverend Sullivan. I think from the independent college testimony, the primary change there would be the recommendation to go to the remaining need concept as the limit of eligibility. That is to say, in terms of how much money do you actually have to have to meet your cost, and do away with the present system, that if you're eligible at all, you're eligible for $2,500.

Mr. Solarz. Let me see if I understand that, because it would seem to make some sense.

You're saying you take a needs analysis and that determines what your need is. Then you would suggest one further step, and that is to obligate people to go out and make an effort to fill that remaining need, presumably through private borrowing or whatever, and only after that is exhausted would they then come to the Government and say, "This is my remaining need."

Reverend Sullivan. The one qualification I would make there, you start out with a sense of what is your projected educational cost, and then you factor in how much is the student expected to earn, how much does the family contribute, what grants, all the way down to a figure which is the difference up to a certain maximum level which you would set, that would be the figure for which you would be eligible for a loan. In other words, suppose it is

$1,500, then your loan eligibility is $1,500 rather than an automatic $2,500.

Mr. **Solarz**. In other rights, right now, if you can demonstrate——

Reverend **Sullivan** [continuing]. A need for $1, you can get $2,500. I think we are saying——

Mr. **Ford**. Only for those people under $30,000.

Reverend **Sullivan**. Under $30,000, that's right. What we are arguing is to extend that needs analysis to all.

Mr. **Solarz**. I am relatively new to this issue, and I have a feeling I am probably stumbling over a mine field here. But do any of the witnesses feel there is a justification for the present system under which, if you demonstrate 10 dollars' worth of need, you are still eligible for $2,500 worth of loans? Or do you think you should only be eligible for a loan equivalent to the amount of your need with some sort of a cap on it?

Mr. **Cronin**. I think the statement factually is not quite correct. You have got to show a need of about $500 to qualify for any kind of a guaranteed student loan. If you do, the Congress in its wisdom, after listening to lenders say the administrative costs to process a $500 loan are the same as they are for $1,000 or $2,500, said that that student could borrow a $1,000. We just don't have a lot of people qualifying for $1, $2, and $5 and getting a $1,000 loan, even under $30,000.

Mr. **Solarz**. The maximum you can get is $2,500?

Mr. **Cronin**. That's correct.

Mr. **Solarz**. But you're saying if you demonstrate at least $500——

Mr. **Cronin**. Yes, $500 or $600, then you can get $1,000; $1,000 would be the minimum loan.

Now, we actually make very few——

Mr. **Saunders**. You can get the $2,500.

Mr. **Cronin**. No.

Mr. **Saunders**. Yes, you can, now.

Mr. **Cronin**. Well, the aid officer at the college has got to certify that the cost of education is such that this would pay for it. You can't just get a loan of convenience, as it used to be.

Mr. **Solarz**. In other words, you're saying that if you can demonstrate a need of $500, which is the amount which remains between every other source of payment—yourself, your family, your job, your scholarship, whatever—and you have $500 left, the most you can get is a $1,000 loan?

Mr. **Cronin**. That's how it works now.

Mr. **Solarz**. You can't get a $2,500 loan?

Mr. **Cronin**. That's what I understand to be the way it works now.

Reverend **Sullivan**. I would have to disagree with that. I mean, our data shows that the average GSL right now is $2,249, and not all of those students are showing maximum need. That has been an ongoing problem with the system and it is one of the reasons that the volume is so large.

Mr. **Solarz**. I suppose we can determine what the factual realities are. But as a matter of principle, is there any reason why somebody should be entitled to get a larger loan than the amount of their demonstrated need?

Mr. **Cronin**. No.

Mr. **Solarz**. What is the problem in giving them a larger loan than the amount of demonstrated need?

Mr. **Cronin**. It's the cost to the Federal Government of paying the in-school subsidy on that larger amount during all the years that that individual is a student. You know, the Federal Government is paying the interest on that added amount during——

Mr. **Solarz**. Is there any estimate of the total amount of lending above demonstrated need and how much that costs the Treasury?

Mr. **Cronin**. There are estimates by the Congressional Budget Office. I think those were prepared as part of the budget.

Mr. **Ford**. You wouldn't have that because below $30,000 is the only place now that you are using the needs analysis and there you do, in fact, limit the loan to the amount disclosed by the needs analysis.

Mr. **Saunders**. What it amounts to, Mr. Solarz, is that under the present system, if your family income is under $30,000, you can use your loan to put up part of your parental contribution.

This isn't a question of abuse. We don't have a problem of abuse here. This is simply that the system has been modified. People used to be able to borrow under the Guaranteed Loan Program to put up their parental contribution. Now, if you're over $30,000 income, you can't do that any more.

Mr. **Solarz**. But you can do it under $30,000?

Mr. **Saunders**. Yes.

Mr. **Solarz**. That does not seem inequitable to me. I mean, if the family is earning less than $30,000, and given all the other expenses they have, there is probably going to have to be a very substantial sacrifice to send the kids to school.

Mr. **Saunders**. That's true.

Mr. **Solarz**. And even with these loans, they are probably still going to have to contribute something. It would just reduce the parental outlay. I mean, we don't want parents to go into the soup kitchens in order to send their kids to school.

Reverend **Sullivan**. I think the question, sir, that is under discussion here is why is there such a distinction between somebody whose AGI is $31,000 and somebody whose is $29,000? Why not have a uniform system as far as the eligibility for the amount of the loan that extends through the income ranges? Obviously, the lower income people are, almost by definition, going to be eligible for greater amounts. But the argument is that remaining need constitutes a uniform system and these income caps, at least for some of us, do not seem to be an equitable system.

Mr. **Solarz**. Thank you very much, Mr. Chairman.

Mr. **Ford**. Let me see if I can take a shot at this. Steve has highlighted the two problems that come up in the minds of the members over and over—why are there differences. Father Sullivan has just suggested between 29 and 31.

It is because something called Gramm-Latta passed the House, not written by this committee, so we have no responsibility for the first time in the history of a program putting that kind of a step in there. Then the administration implemented that with regulations on the needs analysis. Very frankly, we had no place to maneuver when our committee and the Senate committee got into the ball game after the budget resolution was adopted. We did the best we could to mitigate what we conceived to be a flawed premise, because we had always rejected suggestions of arbitrary caps up until that time.

Now, the other part of it, Steve, this committee is responsible for. The bankers, when we were fighting very hard the battle of how to get broader access to student loans for everybody that needed them, convinced many of us on the committee that banks just didn't want to handle a loan below $1,000 because the servicing cost is the same, as Father Sullivan has said, for a $500 loan as it is for a $2,500 loan, and the yield is much different. When you look at your portfolio, that is one f the things that their computer kicks out. Some MBA who runs the operation tells them that you shouldn't be making these small loans.

So that was really a giveaway that we gave to the banks as an inducement to get them into broader lending. Whether that is still valid or not, I'm not prepared to say. That is one of the things we are going to be looking at during reauthorization if there, indeed, needs to be a minimum. Indeed, there may even be a differential between the little bank out in the boondocks that makes a few student loans and City Corp.

City Corp. has a hard time convincing me that there is any difference between a $500 loan and a $2,500 loan on the computers that they operate, because they have reduced the cost of servicing to the irreducible minimum already. The people who still do it on the 3 by 5 cards and ledgers and so on have an argument to make. We can't say to the bankers "don't get into the loan program until you get automated and brought into the last part of the century." But, indeed, when examining the accessibility problem, we try to sweet talk the bankers into the business. Maybe we've got them in now and we can play around with it a little bit, but it is something we should certainly consider.

Mr. SOLARZ. Mr. Chairman, if you will forgive me, I have to get to the floor for the debate on the Anti-Apartheid Act of 1985. But if that legislation should pass, which I hope and trust it will, later today, inasmuch as it prohibits bank loans to the Government of South Africa, it may make available some more funds available for bank loans to college students in our country. [Laughter.]

Mr. HENRY. And also cut off their investment returns.

Mr. FORD. Mr. Penny.

Mr. PENNY. I have no questions, Mr. Chairman.

Mr. SAUNDERS. Mr Chairman, could I just say, in response to all this discussion of the small loan problem, this gives me an opportunity to emphasize our recommendation that the direct loan program be continued, really to address that small loan program and the needs of needy students for smaller loans that can't be guaranteed through the GSL Program.

Mr. FORD. Thank you. I thank all of you gentlemen for the effort you put into the preparation for today's hearing and for your assistance. I know from past experience that we can count on you for many more suggestions and refinements as we go along.

Mr. FORD. We next have Dr. Joshua Smith, president, Borough of Manhattan Community College; Mr. William Clohan of Clohan, Adams & Dean, representing the Association of Independent Colleges and Schools; and Dr. Arnold Mitchem, executive director, National Council of Educational Opportunity Associations.

I would first recognize the gentleman from California, Mr. Dymally.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. Chairman, Dr. Smith is taking a fast plane from Manhattan to California and I want to take this opportunity to welcome him. I will not cross his path too very often as I don't go to Sacremento. But he will head the largest community college system in the United States. I wish him well as a former member of the Postsecondary Education Commission.

He will have his hands full when he goes out there because I intend, if I stay at this hearing long enough, to ask him his views on the new imposition of the Governor's tuition on community colleges which has caused a 20-percent drop in open enrollment. I hope he will have an adequate response without having the Governor rescind his contract.

I welcome Dr. Smith to California. Thank you very much, Mr. Chairman.

Mr. FORD. Thank you.

The prepared texts that have been submitted to the committee will be inserted in the record. We will start first with Dr. Smith.

STATEMENTS OF JOSHUA L. SMITH, PRESIDENT, BOROUGH OF MANHATTAN COMMUNITY COLLEGE [CITY UNIVERSITY OF NEW YORK]; ARNOLD L. MITCHEM, DIRECTOR, EDUCATIONAL OPPORTUNITY PROGRAM, MARQUETTE UNIVERSITY; AND WILLIAM C. CLOHAN, JR., CLOHAN, ADAMS & DEAN, GENERAL COUNSEL, ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

Dr. SMITH. Thank you, Mr. Chairman, and thank you, Congressman Dymally, for your generous remarks. I am sorry that Congressman Solarz has left because I was going to make some comment about moving from his State to your State. It is nice to know that I'm going to have some friends out there.

It is difficult to be separating from one institution to another and wear all these hats that I'm wearing, but today I am representing the American Association of Community and Junior Colleges, of which I became chair of the board of directors on July 1, the Association of Community College Trustees, and the joint commission of two associations on Federal relations. I am the immediate past chair of their joint commission on Federal relations. At the moment I am at the Borough of Manhattan Community College and I am trying to separate to head for Sacramento. Mr. Dymally, even though you may not come to Sacramento very often, I have a feeling that you're going to see me in Washington or in your district.

There are 1,221 community, technical, and junior colleges in the United States which are enrolling over 5 million students in credit programs. They are committed to excellence and the concept of opportunity with excellence. Our graduates contribute significantly to the American economy. Community colleges currently enroll more than half of the minority undergraduates in this country. Forty-three percent of black undergraduates, 54 percent of Hispanic undergraduates, and 43 percent of Asian undergraduates attended 2-year postsecondary institutions according to the figures provided by the National Center for Educational Statistics.

Nearly any person, no matter what his or her record in high school, or what his or her performance on a national test might be, is invited by our institutions to try for a college education. We are firmly committed to keeping our doors open to all students who want to learn. In numbers of adult learners served, community colleges have become the largest branch of American higher education by a wide margin. Until they burgeoned a generation ago, the dream that may be the most universal of American dreams; namely, to go to college, was attained by only a fraction of our youth. As late as 1950, just 3 million Americans attended college. Today, some 12 million are pursuing courses for credit in American colleges and universities, with 5 million in our community, technical, and junior colleges, with 1.1 million of those in the State of California.

We do not penalize adults because they do not have a high school diploma or because they do not have financial means. We provide our graduates with marketable skills to help them overcome their lack of education and training and to help them gain access to the workforce of this Nation.

With the help of Federal student financial aid, students of any age, race, sex, religion, or income may live at home and commute to their local community college. It is important to note that over 90 percent of our students who do receive Federal financial aid have incomes below $25,000 per year. Moreover, a full 70 percent of our full-time students and 81.1 percent of the part-time students also held jobs in 1981 at community colleges across the Nation. We suspect that these percentages reflect today's reality as well.

For those who demonstrate financial need, we support the concept of providing a balanced mix of grant aid, work and loans. At the same time, we believe strongly that poor students should receive grant aid and work study money first and only use the Guaranteed Student Loan Program after those avenues have been fully tapped.

From our standpoint, the Guaranteed Student Loan Program was designed to make it possible for all students to borrow under terms they could meet. We believe it was put in place mostly to meet the needs of middle class families with incomes ranging from $15,000 for single people to $35,000 for a family of four with a mean of about $25,000.

In the past, lower income students were less likely to borrow money in order to attend college. For an assortment of reasons, these students did not see loans as accessible resources and reasonable risks to support their education. Further, because of their income levels, loan repayment was an intimidating prospect.

We are very concerned by recent freshman surveys that suggest that lower income families now are as likely to borrow as wealthier students and that loans equal in number grant aid as a means of supporting students from lower income families. Part of the reason low-income people have turned to borrowing is because Pell grant dollars have not kept pace with inflation. We are firmly committed to the Pell Grant Program as the vehicle for access to higher education and wish to express our strong support of the 1980 amendments. Our regret is that your far-reaching vision for the Pell Grant Program in 1980 has not yet been achieved.

Let me reiterate, poor people should receive grants. The danger of increased loans for low income students is captured in a recent State study of the phenomenon, and that was in California.

The California Community College System is unquestionably the largest system of higher education in the United States. Its enrollments this year equal 27 percent of all persons registered in public 2-year institutions and 10 percent of all public and private college enrollments at all levels. The Policy Committee of the California Postsecondary Education Commission recently published a study entitled "Mortgaging a Generation: Problems and Prospects of the California Guaranteed Student Loan Program."

In terms of the 106 community colleges in the State, the report is enlightening. Since 1979–80, community college students have 8 times as many loans and have borrowed 11 times as many dollars as before. During 1983–84, 12 percent of the Guaranteed Student Loans in the State were made to students at community colleges. In terms of dollars borrowed, students who attended community colleges accounted for 10 percent of the total. The average loan for community college students was $2,000. In California, only 24 percent of the students received any aid from their parents. California, as you know, has the lowest tuition in the Nation. At those colleges, the basic fee is just $100 for an academic year.

Mr. Chairman, I hope the subcommittee will take note of the newest study by Prof. J. Stampton of the University of Wisconsin—and I'll leave it for you. It clearly shows that lower income students, particularly minorities, have less access to postsecondary education today than they had 5 years ago. The purchasing power of the Pell grant has slipped by some 40 percent in those 5 years, and loans are not the answer. I will quote from the study which concludes that:

> Student aid continues to be targeted primarily on students from low income backgrounds. In this respect, few changes have occurred since 1981–82. However, incremental steps seem to be leading away from this standard. Overall, average incomes of aid recipients appear to be increasing, and the type of aid relied most heavily upon by students in the lowest income category, namely, grants, appears to be declining. Also, there have been sharp declines in aid recipients who are members of minority groups, an important population in past efforts to promote higher education opportunity.

The heart of the community college mission is to provide opportunities to all students, including those considered to be high risk. A profile of these high-risk students provided by the National Counsel of Educational Opportunity Associations indicates that the students are the first generation in their family to attend college. Some have not graduated from high school, and those that have may lack some of the skills to cope with college curriculum. High-risk students come from poor families without experience with banks and loans. High-risk students have extraordinary demands on their very limited resources. They have both children and in some instances language difficulties. They often lack role models. Some of them are single parents who are the heads of households.

To extend loan options to this group of students is to invite problems. It invites, most particularly, loan defaults, a condition that will have negative consequences for the student who is getting the loan, to the student who is coming behind, to the institution, and the Federal Government.

What are the options that we would suggest to the subcommittee for the guaranteed student loan? They are not significantly different from what you have heard from the previous panel.

First, while rising costs prompt the senior institutions to seek increases in the loan limits in the guaranteed student loan, we urge caution, particularly as the limits apply to students in their first and second years of college. As you know, GSL is an entitlement. As loan limits are increased, the cost of the program almost certainly will soar higher. Our concern is to preserve both the purchasing power of the grants and the constructive balance of the grant and loan options. The current loan limit for the first 2 years of college is $2,500 per year, and we suggest that Congress keep that limit, at least for the freshman year.

Two, we hope that the Congress will insist on multiple disbursements of loans. This can limit the loan burden of students who for whatever circumstances do not remain in college for the whole academic year and this will also ensure that there is no fraud, waste or abuse in the program.

While we realize that it would be difficult to mandate that grant aid should go to poor students and loans should be received by middle income students with demonstrated need, we would hope that the Congress would consider requiring the guaranteed student loan applicants to apply first for campus-based aid and Pell Grants. If the student continues to demonstrate need, then and only then should the low-income student be encouraged to get into debt.

We also would hope that the Congress will seek to eliminate the origination fee.

In closing, Mr. Chairman, we want to add that our institutions are pleased to see the Petri bill among the reauthorization initiatives is one of those that the subcommittee will consider in the course of these hearings. Congressman Petri's concept of moving Federal student loans toward a freestanding, off-budget program deserves the closest consideration. I would hope that if you could at all do it you would find a way to put the GSL off in a separate category so that it does not impact upon the regular budget and so that it does not impact upon the Pell Grant Program.

So, to sum up, if access remains paramount in the intent of Federal student aid—and we surely believe that Congress is not wavering in that intent—then the loan program fundamentally is a supplement to the grant program. Surely Congress never intended that GSL would be the costliest of the student aid programs. Its disconcerting growth has been fed, at least in part, by a serious decline in the purchasing power of Pell grants. As low-income students become increasingly dependent on loans for access, access is diminished and the default risk is increased. Our foremost objective is to restore and stabilize the purchasing power of the grant aid. For these reasons, the recommendations our community college associations have made to this subcommittee for reauthorization of the Pell Grant Program call for starting out where the 1980 amendments leave off—at a $2,600 maximum grant and a covered cost allowance of 70 percent.

Thank you for this opportunity.

Let me just finish on a personal note. One of my professors, unfortunately, has left, Joe Cronin. So I am happy he is not going to grade me on today's presentation—oh, he's still here.

Joe Cronin, who was one of my professors when I was last a graduate student, he was a tough one. I remember how I managed to make it through. It was with a combination of grants from the institution and the loan—and it was the old MDEA loan—became the glue that enabled me to wrap up that graduate education. I would like to see the same thing happening with the GSL.

I will close by saying that it's important for me to note that I paid my loan back.

[The prepared statement of Dr. Joshua L. Smith follows:]

PREPARED STATEMENT OF JOSHUA L. SMITH, PRESIDENT, BOROUGH OF MANHATTAN COMMUNITY COLLEGE (CITY UNIVERSITY OF NEW YORK)

Mr. Chairman and members of the subcommittee: Thank you for the opportunity to present recommendations for the Guaranteed Student Loan Program. My name is Joshua L. Smith. I am here representing three groups that share a common goal and united mission: The American Association of Community and Junior Colleges, of which I become Chairman of the Board of Directors July 1, 1985; the Association of Community College Trustees; and the ACCT-AACJC Joint Commission on Federal Relations. I am the immediate past Chairman of this Joint Commission, which leads the work of the two Associations on federal legislation.

I am currently President of the Borough of Manhattan Community College and as of September 1, 1985, will be Chancellor of the California Community College System which includes 106 public community colleges in the state.

Community colleges have a substantial impact on the welfare of this country. There are 1,221 community, technical and junior colleges, which enrolled close to five million students in credit programs this year. Over 60 percent, or 3.3 million, registered in occupational programs, anad 1.5 million enrolled in transfer programs aiming toward baccalaureate degrees. Another 3.8 million students enrolled in our non-credit programs during the last academic year. One-third of these non-credit offerings upgrade or enhance the learners' job skills and make them more employable.

Our graduates contribute significantly to the American economy. Community colleges enroll more than half of the minority undergraduates in this country. Forty-three percent of black undergraduates, 54 percent of Hispanic undergraduates and 43 percent of Asian undergraduates attend two-year postsecondary institutions, according to figures provided by the National Center for Educational Statistics.

Community colleges pride themselves on being able to offer an opportunity for quality education to people who would not otherwise be able to atend college. We are accessible institutions. Our tuition costs are low; in 1984, the national average cost for public two-year colleges was $560 for tuition and fees. And because we have a commitment to providing special services for students who need them, we give many students an opportunity for educational success that they could not find elsewhere.

Community colleges are committed to the concept of "Opportunity with Excellence." Nearly any person, no matter his/her record in high school or his/her performance on national tests, is invited by our institutions to try for a college education. We are firmly committed to keeping our doors open to all students who want to learn.

In numbers of adult learners served, community colleges have become the largest branch of American higher education, by a wide margin. Until they burgeoned a generation ago, the dream that may be the most universal of American dreams—to go to college—was attained by only a fraction of our youth. As late as 1950, just 3 million Americans attended college. Today, some 12 million are pursuing courses for credit in U.S. colleges and universities—5 million in our community, technical and junior colleges.

We do not penalize adults because they do not have a high school diploma or because they do not have financial means. We provide our graduates with marketable skills to help them overcome their lack of education and training and to help them gain access to the workforce of this nation.

With the help of federal student financial aid, students of any age, race, sex, religion, or income may live at home and commute to their local community college. It is important to note that over 90 percent of our students who do receive federal financial aid have incomes below $25,000 per year. Moreover, a full 70 percent of our full-time students and 81.1 percent of the part-time students held jobs in 1981 at community colleges across the nation. We suspect these percentages reflect today's reality as well.

For those who demonstrate financial need, we support the concept of providing a balanced mix of grant aid, work and loans. At the same time, we believe strongly that poor students should receive grant aid and work-study money first and only utilize the Guaranteed Student Loan program after those avenues have been fully tapped.

From our standpoint, the Guaranteed Student Loan program was designed to make it possible for all students to borrow under terms they could meet. It was put in place mostly to meet the needs of middle-class families. Middle income now seems to range from $15,000 for single people to $35,000 for a family of four with a mean of about $25,000.

In the past, lower-income students were less likely to borrow money in order to attend college. For an assortment of reasons, these students did not see loans as accessible resources and reasonable risks to support their education. Further, because of their income levels, loan repayment was an intimidating prospect.

We are very concerned by recent freshman surveys that suggest the lower-income families now are as likely to borrow as wealthier students and that loans equal in number grant aid as a means of supporting students from lower-income families. Part of the reason low-income people have turned to borrowing is because Pell Grant dollars have not kept pace with inflation. We are firmly committed to the Pell Grant program as the vehicle for access to higher education and wish to express our strong support of the 1980 amendments. Our regret is that your far-reaching vision for the Pell Grant program in 1980 has not yet been achieved.

Let me reiterate, poor people should receive grants. The danger of increased loans for low-income students is captured in a recent state study of the phenomenon.

The California community college system is unquestionably the largest system of higher education in the U.S. Its enrollments this year equal 27 percent of all U.S. public two-year institution enrollments and 10 percent of all public and private college enrollments at all levels. The Policy Committee of the California Postsecondary Education Commission has recently come out with 5T2"Mortgaging a Generation: Problems and Prospects of the California Guaranteed Student Loan Program."

In terms of the 106 community colleges in the State, the report is enlightening. Since 1979-80 community college students have eight times as many loans and have borrowed eleven times as many dollars as before. During 1983-84, 12 percent of the GSL's in the State were made to students at community colleges. In terms of dollars borrowed, students who attended community colleges accounted for 10 percent of the total. The average loan for community college students was $2,000. In California only 24 percent of the community college students received any aid from their parents. California, as you know, has the lowest tuition in the nation. At California community colleges, the basic fee is just $100 for an academic year.

The heart of the community college mission is to provide opportunities to all students including those considered to be high-risk students. A profile of these high-risk students provided by the National Council of Educational Opportunity Associations indicates that the students are the first generation in their family to attend college. Some have not graduated from high school and those that have may lack some of the skills to cope with college curriculum. High-risk students come from poor families without experience with banks and loans. High-risk students have extraordinary demands on their very limited resources. They have both children and language difficulties. Often they lack role models. Some of them are single parents who are the head of a household.

To extend loan options to this group of students is to invite problems: it invites, most particularly, loan defaults, a condition that has negative consequences for the student, the other students, the institution and the federal government. What are the options that we would suggest to the Subcommittee for the Guaranteed Student Loan Program?

(1) While rising costs prompt the senior institutions to seek increases in the loan limits in GSL, we urge caution—particularly as the limits apply to students in their first and second years of college. As you know, the GSL is an entitlement. As loan limits are increased, the cost of the program almost certainly will soar higher. Our concern is to preserve both the purchasing power of the grants and the constructive balance of the grant and loan options. The current loan limit for the first two years of college is $2,500 per year, and we suggest that Congress keep that limit, at least for the freshman year.

(2) We hope that the Congress will insist on multiple disbursements of loans. This would limit the loan burden of students who for unforeseen circumstances did not remain in college for the whole academic year and ensure that there was no fraud, waste and abuse in the program.

(3) While we realize that it would be difficult to mandate that grant aid should go to poor students and loans should be received by middle income students with demonstrated need, we would hope that the Congress would consider requiring GSL applicants to apply first for campus-based aid and Pell Grants. If the student continues to demonstrate need, then and only then should the low-income student be encouraged to get into debt.

(4) We would hope that the Congress would consider eliminating the origination fee which arbitrarily reduces the amount of funds available to the student.

In closing, Mr. Chairman, we want to add that our institutions are pleased to see the Petri bill among the reauthorization initiatives that the Subcommittee will consider in the course of these hearings. Congressman Petri's concept of moving federal student loans toward a free-standing, off-budget program deserves the closest consideration. Of course, the program could succeed only if a workable bonding mechanism can be devised to make the revolving fund secure. Yet the interest savings to both taxpayers and students, in the rates of treasury notes versus bank rates alone, could be enormous. Unquestionably, the soaring cost of GSL weakens the balance of the student financial aid program mix, and leaves the Congress unable to fund yet other important education programs. Were GSL an off-budget program, Pell Grants, for example, would easily be affordable as an entitlement program within current overall funding for higher education programs—and there could be monies left over for vocational education, adult education, teacher training, library networks, cooperative education, and other programs which are vital to our national progress.

Summing up, Mr. Chairman, if access remains paramount in the intent of federal student aid—and we surely believe that Congress is not wavering in that intent—then the loan program fundamentally is a supplement to the grant program. Surely Congress never intended that GSL would be the costliest of the student aid programs. Its disconcerting growth has been fed, at least in part, by a serious decline in the purchasing power of Pell Grants. As low-income students become increasingly dependent on loans for access, access is diminished, and the default risk increased. Our foremost objective is to restore and stabilize the purchasing power of the grant aid. For these reasons, the recommendations our Associations have made to this Subcommittee for reauthorization of the Pell Grant program call for starting out where the 1980 Amendments leave off—at a $2,600 maximum grant and a covered cost allowance of 70%. Thank you again for this opportunity to share our views.

Mr. FORD. Dr. Mitchem.

Dr. MITCHEM. I thank you, Mr. Chairman. I'm Arnold Mitchem, director of the Educational Opportunity Program at Marquette University, and also the executive director for the National Council of Educational Opportunity Associations, an organization that represents close to 4,000 counselors, teachers, and administrations, in 800 colleges and universities, and 80 community agencies working in the TRIO Program, working with low-income kids.

This morning I am representing the National Council in talking about the subject of debt burdens and loan limits. The National Council is opposed to any increase in loan limits. We believe that any increase in that area creates a greater imbalance between grants and loans and that that would have an adverse impact upon low-income students.

I hope to make four points today, very quickly. First, that raising loan limits would likely make it more difficult to increase appropriations for Pell grants and supplementary educational opportunity grants. Second, that in the absence of adequate grant aid, raising loan limits would probably substantially increase the indebtedness of low-income students. Third, most low-income and minority students do not earn baccalaureate degrees in fields which command the highest salaries. The total indebtedness allowed under current law already exceeds that which is in our opinion manageable for graduates with low-income backgrounds. And finally, the data suggest that most low income and minority students who enter college do not earn baccalaureate degrees. One could argue that such students are worse off economically because their indebtedness often exceeds their increased income attributable to college attendance.

Let me very briefly elaborate on those four points.

We are assuming that there is a finite amount of dollars that the Congress will appropriate for higher education. Given that, if the Guaranteed Student Loan Program and the National Direct Student Loan Program continues to grow at the pace that it does—and certainly, it is our opinion it would grow even faster if either loan limits were increased—that that would absorb potential funds that could be used for the Pell and SEOG Programs.

We also feel that by increasing the loan limits you would mask the difference in the gap that exists between the cost of attendance and available resources, and thus the political pressure to raise the grant programs would be thus reduced. So we feel again that it is important to leave the loan limits where they are.

Second, we feel that to raise the loan limits would really make the indebtedness of a lot of these individuals who have come from low-income backgrounds clearly unmanageable. Take the situation I'm in at Marquette University. We have a very generous financial aid program. Since 1969, the university has spent close to $6 million of its own resources. Also in the State of Wisconsin we have a very generous program in terms of a Wisconsin tuition grant, which Marquette benefits from. We also have a talent incentive grant, which is partially subsidized by the supplemental SSIG Program. So in a State where there is a generous amount of grant aid available, out of 242 students who are currently enrolled in my Special Services Program, 124 of those kids are carrying a maximum guaranteed student loan. So even in areas where a lot of grant aid is available, where an institution is being responsive, we find a number of kids are carrying maximum loans.

So the point is that it seems to me that in the current fiscal realities, even in the best of situations, promote the awarding of maximum grants. So you can imagine what would happen in the worst of circumstances.

In terms of some of the data we have looked at, we find that 55 percent of low-income students in private schools take out guaranteed student loans and that the average loan in private schools is around $2,200. California was referenced earlier. We look at some data that was generated by the California Postsecondary Commission and we found that 56 percent of the students whose incomes are below $12,000 applied for guaranteed student loans, a higher percentage than any other group, and that the average GSL in California community colleges in 1983 and 1984 was $2,200. So clearly, we see what is occurring in terms of this mounting indebtedness.

Another example from my own institution, when you consider that what we are trying to do is provide upward mobility for people so that they have a better life chance and that their children have a better life chance, that some of these people want to go on to graduate and professional schools. Then you add the debt they incur at the undergraduate level with debt that many of them are incurring at the graduate and professional level, it is rather staggering.

Right now close to 20 percent of the students at Marquette's dental school are minorities. In the last graduating class of dentists at Marquette, the average loan was $47,500. There was one individual who had a loan of $97,400. These are moneys that this individual accumulated in the dental program. Obviously, these cases are not guaranteed student loans. These are HEAL loans. But you add that on top of the burdens that many of the individuals brought with them into the dental experience, you can see where we're going.

Another point I would like to make is that many of the students who graduate from programs like mine and a lot of others don't go into the high-paying glamour fields that are so widely advertised. They're not all engineers. Yes, I have some kids who come out of that program who get job offers at $32,000 to work for this or that utility company. But they are the exception and not the rule. Most of our people are in the $14,000 range. You consider in that area you're looking at take-home pay of somewhere in the neighborhood of $900. If you assume that an individual in 5 years—the program I run is a 5-year program, they can stay there 5 years, if necessary in order to fulfill their baccalaureate requirements—let's say if the individual did, indeed, borrow the maximum in each of those years, that individual would leave there with an indebtedness of somewhere around $12,500. If we calculate that out, that person would be paying about $152 a month out of a take-home pay of $900, which is about 17 percent of their net, which is a figure that, according to the Educational Testing Service, is larger than it ought to be in terms of what people ought to have to pay out of their discretionary funds for loan indebtedness.

Also, one of the more tragic cases from experience was a woman who graduated from our program who, unfortunately, for the first 2 years was unable to get a job. She was working on a part-time basis. But she was a very conscientious human being and was paying over 50 percent of what she was making from her part-time employment in repayment of her loan. She was getting about $40 a week and she was paying about $25 of that toward her loan. She fell into default, got a job, started trying to repay the loan at a rate of about—she borrowed about $9,500 and she graduated in 1982. She started repaying and was in default and they came after her. Now she's in a situation, because she is in default, and since she can't file for bankruptcy, every 6 months they threaten her that she has to pay the whole amount. Then she has to run around town and try to get loans from banks. Of course, she can't get any.

So she is paying $200 a month out of an income of somewhere around $4,000, and she's the mother of three children.

Now, you know, when we offered her an opportunity, when we offered her access, indeed, we would like to believe we were trying to improve her life chances and improve her life conditions, so that she would have a better and more secure existence. I feel very troubled by this example because I don't feel in some sense we have improved this woman's position at all.

The other thing that people often forget is that a lot of the low-income minority kids who go into college do not graduate from college. If you look at some data provided by the national longitudinal study, you will note that in terms of blacks and Hispancis in 4 years, only 24 percent of blacks graduated in 4 years and only 13 percent of Hispanics graduated in 4 years. You stretch that out to 9 years and you find that 42 percent of blacks and 31 percent of Hispanics graduated in 9 years. Now, that means an awful lot of people don't graduate.

If you look at some other data in trying to figure out how much money these people are making, it sort of appears there may be a net economic loss to some of these people. When you factor in how much their income has increased by virtue of the fact they have been in college for 1 or 2 years and don't get the baccalaureate degree, and then you tack on to that what they have to pay in loan repayments to repay the loan they took out when they were in college, it appears to us that there is not many benefits there and may even be a net loss, just in economic tangible factors, not to speak about the emotional and psychological implications and impacts of these kinds of things.

I often wonder, given the number of people from low income and minority backgrounds who borrowed money from both the NDSL and Guaranteed Student Loan Program, who didn't make it through college, what kind of tone they are creating back in their communities in terms of what they say about college. I think some of them are probably feeling cheated and some of them are probably telling their young brothers and sisters and others not to go on to college, which is wrong and too bad. But it is a problem.

Let me conclude with this. There is a notion floating around this town and other places that providing loans to low-income students costs almost as much as providing these same students with grant aid. For example, the Congressional Budget Office estimates that the cost to the Federal Government of the GSL in interest subsidies and special allowances is over $400 per $1,000 loaned. Let me say that is something to consider or think about.

The last thing I would like to say is that it seems to me, if we consider the business of whether we ought to raise or keep the loan limits as they are, this committee needs to take a hard look at the impact this is going to have on equal educational opportunity. This committee has always protected equal educational opportunity. Accept the college, yes, but we want people to go to college so they can be upwardly mobile people and make contributions to our society. I am not so sure that that's occurring.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. Arnold Mitchem follows:]

PREPARED STATEMENT OF ARNOLD L. MITCHEM, DIRECTOR, EDUCATIONAL OPPORTUNITY PROGRAM, MARQUETTE UNIVERSITY AND EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF EDUCATIONAL OPPORTUNITY ASSOCIATIONS

Mr. Chairman, Members of the Subcommittee, my name is Arnold Mitchem and I am the Executive Director of the National Council of Educational Opportunity Associations. Additionally, I serve as the Director of the Educational Opportunity Program at Marquette University in Milwaukee, Wisconsin. I am pleased to have this opportunity to present the NCEOA's reasons for opposing any increase in loan limits under the Guaranteed Student Loan program. We believe any such increase would create greater imbalances between the grant and loan programs, and would adversely affect low-income students.

I hope to make four points in my testimony today.

First and most disturbing, raising loan limits would make it more difficult to increase appropriations for Pell Grants and Supplementary Educational Opportunity Grants.

Second, in the absence of adequate grant aid, raising loan limits would probably substantially increase the indebtedness of low-income students.

Third, most low-income and minority graduates do not earn baccalaureate degrees in fields which command the highest salaries. The total indebtedness allowed under current law already exceeds that which is manageable for graduates with low-income backgrounds.

Finally, the data suggest that most low-income and minority students who enter college do not earn baccalaureate degrees. One could argue that stuch students are worse off economically because their indebtedness often exceeds their increased income attributable to college attendance.

I. Raising loan limits would tend to make it more difficult to increase appropriations for Pell Grants and Supplementary Educational Opportunity Grants.

Given trends over the past few years, there is not a great probability that there will be unlimited dollars available for Federal student assistance in the next five years. But one thing is certain. Raising GSL loan limits will absorb a significant amount of additional Federal funds and will do so prior to further legislative action.

There is, I would think, a strong possibility—if not probability—that one effect of this increased cost would be to decrease the probability of raising the maximum Pell Grant and other grant aid to the levels required. Increased grant aid, all observers agree, is the principal need of low-income students. Present law allows undergraduates a $5,000 maximum loan ($2,500 NDSL, $2,500 GSL) but provides the Appropriations Committee the flexibility to make a determination on an annual basis as to which has greater priority—increased grant aid or increased loan availability. Raising GSL loan limits destroys such flexibility.

Further, raising GSL loan limits would tend to mask the need for increased grant assistance. If there is a gap of x amount between the cost of attendance and resources available to allow students to attend an institution; administrators, faculty, students and their families are forced to argue the need to fill that gap with grant aid. If the gap is artificially filled with loan dollars, there is much less pressure to mobilize to argue the case for increased aid resources.

II. In the absence of adequate grant aid, raising loan limits would probably substantially increase the indebtedness of low-income students.

I am responsible for a program for low-income students at Marquette University in Milwaukee—a program which was initially begun entirely with institutional funds in 1969. Upon admission, the Program guarantees each student full financial aid to the extent of need for ten semesters. In 1973–74, after admitting its fifth class of students into EOP, the University agreed to raise the amount of institutional aid it set aside for EOP students each year to correspond to any increase in tuition. Thus, since 1969, the University has spent over $5,714,000 in non-competitive institutional grant aid for EOP students including $690,500 this year. Additionally, the 242 EOP students who were enrolled last year received $328,700 in grant aid under the Wisconsin Tuition Grant Program, as well as $203,000 under the SEOG program (31% of the Univeristy's SEOG allocation).

Each spring, the Director of Student Financial Aid and my staff sit down to package students. We start with a general need for a dependent student without dependents of $10,230. He projects Pell and our State Tuition Grant aid and usually adds $1,000 in SEOG. The balance of aid, $5,230, must be divided between self-help and grants. The more self-help that is awarded, the less institutional aid is required, and thus EOP's defined amount of institutional aid can be stretched further by increasing student loans. This year, of the 242 students enrolled in EOP, all but 124 received at least $2,500 in loans. Of those 124, 77 were awarded less than $2,500 because they received State grants for freshmen and sophomore students—funded in part by SSIG—specifically intended to reduce loans. Of the remaining 47; thirteen received outside scholarships, six refused at least a part of their loan, and seven asked to replace a portion of their loan with larger Work Study awards. In all, more than 90% of my students would have received at least $2,500 in loan except for factors cited above.

My point is simply that even with strong institutional support and a generous state grant program, fiscal realities promote the awarding of maximum loans. Marquette could decrease the average loan of 1985 EOP freshmen by half, but that alternative would require either halving the number of EOP students admitted, or providing them less than what the University considers to be an adequate financial aid package.

One might generalize that the predicament Marquette faces is similar to that facing aid officers and institutions across the country. When it comes to packaging the lowest income students, in the absence of adequate grant aid, there are only three questions: How many students does an institution package? How large a loan is awarded? How adequate are the packages awarded? The only way not to award maximum loan is to package fewer students, or to award less than adequate packages. Colleges competing for students are unlikely—in the main—to choose to package fewer students.

These assumptions are borne out by the data. The independent colleges have found that over 55% of their students from families with incomes below $10,000 were awarded GSL loans averaging over $2,200 in 1983–84. The California Postsecondary Commission has found that even in a State with a generous aid program and low tuition, 56% of students from families with incomes below $12,000 applied for Guaranteed Student Loans—a higher percentage than for any other income group. Even in the lowest cost schools, students appear to bear heavy loan burdens. In California community colleges, for example, the average GSL in 1983–84 was over $2,200:

In addition to being concerned about debt burden for low-income undergraduates, Marquette is particularly concerned about the extent of debt now assumed by graduate and professional students. The situation is particularly acute in the Dental School where enrollment is 20% minority. Of the 125 Dental graduates in 1985, only four graduated without debt. The remaining 121 graduated with loans (excluding undergraduate loans) ranging from $5,000 to $97,400 and averaging $47,500. In addition to GSL's, the majority of the indebtedness was assumed under the Health Educational Assistance Loan program.

III. Most low-income and minority graduates do not earn baccalaureate degrees in fields which command the highest salaries. The total indebtedness allowed under current law already exceeds that which is manageable for graduates with low-income backgrounds.

The underrepresentation of minorities and low-income persons in engineering, business and the sciences has been reported on many occasions. Yet the 1983 Condition of Education notes that starting salaries in education, the social sciences and many other areas where students from these groups are likely to graduate, average less than $14,000 annually, with an average net monthly pay generally below $900. Under current law, if a student took out a maximum loan each semester and required five years to graduate, he would be expected to pay $152 per month on the loan, that is 17% of his net pay. Assuming adoption of the changes recommended by the American Council on Education without changes in repayment options, that individual would be expected to repay $242, or 27% of his net pay on a monthly basis.

TABLE 2.—OCCUPATIONAL DISTRIBUTION AND AVERAGE ANNUAL SALARIES OF RECENT BACHELOR'S DEGREE RECIPIENTS WORKING FULL-TIME: MAY 1981

Occupation	1979–80 Recipients in May 1981	
	Employed full-time	Average annual salary in constant (1981 dollars)
Total	632,500	15,300
Business	151,600	16,400
Education	88,800	11,200
Engineering	51,200	22,900
Health professional	42,600	17,400

TABLE 2.—OCCUPATIONAL DISTRIBUTION AND AVERAGE ANNUAL SALARIES OF RECENT BACHELOR'S DEGREE RECIPIENTS WORKING FULL-TIME: MAY 1981—Continued

Occupation	1979–80 Recipients in May 1981	
	Employed full-time	Average annual salary in constant (1981 dollars)
Public affairs	28,100	11,800
Biological & physical sciences	9,600	15,400
Fine arts	15,100	18,700
Social sciences and psychology	7,100	15,900
Research	10,500	13,400
Communications	8,300	13,000
Computer science	21,400	19,800
Technician	25,000	14,700
Other professional	10,900	14,500
Sales	58,400	16,300
Clerical and secretarial	61,300	11,400
Crafts and operatives	16,800	15,900
Other nonprofessional	30,900	12,000

In February 1984, the Educational Testing Service published "Student Loan Limits: Estimating Manageable Student Loan Limits for the Class graduating in 1984 and the Class Entering in 1985." In that report, Dwight Horch sought to find out how much students can borrow and comfortably repay from the future income. Horch defined "manageable" repayment as the proportion of the borrower's estimated income available for "other consumption" expenditures—such as education, recreation, and miscellaneous expenditures—after food, housing, transportation, clothing, personal care, medical care, gifts, contributions and insurance are factored out. Based on Bureau of Labor Statistics standards for "other consumption," he estimated that students can manage to contribute from 5.8 to 9.0 percent of their after-tax income toward repaying their student loans, depending on their income level. Given these annual repayment capacities, Horch calculated that baccalaureate degree recipients could not reasonably be expected to repay their loan obligations for amounts over a cumulative debt of $5,000.

I have seen a number of my Program's graduates floundering with excessive debt burden.

Carol, a white female, was a mother of three who graduated in broadcasting with a cumulative debt of $9,500 in 1982. Unable to find full-time employment, she used $25 of her $40 weekly part-time income to repay her loans. When she became employed on a full-time basis two years after graduation, she immediately began paying $140 per month on her GSL, but was already in default. Today, despite the fact that on an annual salary of $14,000, Carol makes monthly $200 loan payments; the loan agency demands the entire sum owing every six months. In order to prevent legal action, she must file for a loan for the entire amount at three banks. Only upon denial can she continue her payments.

Dennis, a Black male dental graduate who left the EOP in 1980 entered dental school already owing $4,000. There he received $54,000 in additional loans. Upon graduating, he was unable to finance a dental practice, and began working in a clinic in inner city Milwaukee at a net monthly salary of $1,600. His monthly loan payments—to five agencies—equal $784.

Clearly, some of the most offensive aspects of the current system can be minimized by more flexible repayment options, and I support such changes in the GSL provisions. But even with such options in place, in the case of low-income students, the current loan maximums are clearly high enough.

IV. The data suggest that most low-income and minority students who enter college do not earn baccalaureate degrees. One could argue that such students are worse off economically because their indebtedness often exceeds increased income attributable to college attendance.

Based on the National Longitudinal Study, four years after college entrance, only 24% of Blacks and 13% of Hispanics have completed college. Using National Longitudinal Study data, Alexander Astin estimates that nine years after college entrance, only 42% of Blacks and 31% of Hispanics have completed baccalaureate degrees. He estimates similar retention rates for the lowest-income students regardless of race.

Extrapolating from the data, it is possible to argue that the majority of low-income individuals who enter, but do not complete college, do not significantly increase their earning capacity. Further, in many instances, when the cost of loan repayment is deducted from the salary differential associated with college attendance, the result is a net loss. The following table from the 1982 Condition of Education details the earnings of high school graduates. As you can see, the maximum difference in median initial salary for a high school graduate who attended college for less than two years is $650.

The typical increase in median earnings for young people from low-income backgrounds is less than $600 for up to four years of college.

TABLE I.—EARNINGS OF HIGH SCHOOL GRADUATES IN INITIAL JOB AFTER COMPLETING FORMAL SCHOOLING, BY LEVEL OF SCHOOLING COMPLETED, SEX AND FAMILY SOCIOECONOMIC STATUS: 1972 TO 1979

[In thousands of dollars]

	Level of Schooling Completed			
	No College	Less than 2 years of college	More than 2 years of college	Bachelors degree
Males mean yearly earnings	11,972	12,391	13,194	14,132
Females mean yearly earnings	7,794	8,450	9,151	10,934
Low family socioeconomic status:				
Mean yearly earnings	9,416	10,003	9,650	11,866

Typically, if we can trust the data, the effect of any annual loan payment over $600 is that students who attend college but do not complete a baccalaureate probably will not realize any net economic gain from attending and may, in fact, suffer a net loss. Minimum repayment levels almost always require that students repay at least $600 annually.

Now clearly, I am using mean income data and there are many exceptions which can be cited. But I think if you talk with any aid administrator or TRIO director, they will tell you that for every student who significantly increases their earning capacity by attendance in a postsecondary program without receipt of a baccalaureate, there are more that do not. Certainly, this is the case for students who drop out or are dropped from my Program. This results, I am afraid, in a fairly large segment of our lowest income population who feel they have been cheated once more. That every time they try to make life better for themselves and their families, they end in a more difficult situation than they started.

Essie, an Hispanic female who entered Marquette in 1971 is such a case. In 1974, after accumulating debt of $4,500, she dropped out and took a job as a bank teller at an annual salary of $8,400. On that income, she was expected to repay $50 monthly on her student loans. When she fell behind in her payments, she fell into default and eventually her wages were garnished. Each week they garnished $33.50 of her $134.00 take home pay with which she supported herself and her child.

I think it is important to remember that the people collecting Guaranteed Student Loans do not resemble aid officers, they are more akin to persons whose job it is to repossess cars in the ghetto, or collect on charge accounts. Further, they are not held back by most of the normal legal constraints governing creditors, since GSL's cannot be discharged by bankruptcy.

Finally, I do want to mention the fact that while data is limited, there is some support for the notion that providing loans to low-income students costs almost as much as providing these same students with grant aid. For example, the Congressional Budget Office estimates that the cost to the federal government of the GSL—in interest subsidies and special allowances—is over $400 per $1,000 loaned. The cost this year of default is $800,000,000, and based on the percentage of loan capital provided to students with incomes below $12,000, a $1,000 GSL to a low-income student costs the government at least $650—as well as substantial public mistrust of the program because of high default rates. Increasing loan limits simply exacerbates the cost and the problem.

I realize the difficulty of the questions before the Subcommittee today, and I do hope my comments are of some assistance. I would be pleased to answer any questions you might have.

Mr. FORD. Thank you.

Mr. Clohan, let me just say to the members of the committee that Mr. Clohan was the minority counsel when we reauthorized the last time, so if you want a target for the things that were done wrong in the legislation, he's here. [Laughter.]

Mr. CLOHAN. Thank you, Mr. Chairman, and members of the committee. Today I am representing the Association of Independent Colleges and Schools as their general counsel. AICS represents approximately 1,000 colleges, schools, and branch campuses throughout the country who primarily are involved in training students for business education.

Today I am going to focus on all the issues very quickly that were listed for the subcommittee's consideration. I would note that private career education is a national resource. Approximately three-quarters of all vocational school students in the country are trained by private career colleges and schools. Their objective is primarily to train students for specific jobs and/or careers.

In general, very similar to the college population represented by Dr. Smith, in general they tend to be from lower income and primarily from minority and disadvantaged backgrounds. This is significant when you considering changes to the GSL Program and the impact on these types of students.

I would note, however—and I rarely disagree with Arnie Mitchem at all—I would point out that graduation from a 4-year program is not necessarily essential nor the criteria for determining success in whether these student aid programs work. I know he didn't imply that, but I think it is important that many students throughout the country really need a 1-year program, or maybe a 2-year program, that provides them with specific job skills. In fact, if you look at the Department of Labor projections in the next two decades, you will find that the greatest need in this country is not for baccalaureate program graduates; it is for 1- and 2-year program graduates.

I heard on the radio this morning that within 10 years the need for computer technicians will double what it is now. Schools represented by AICS and other private career associations in fact train those specific students.

As has been noted by many of the witnesses before, loans are increasingly making up a larger percentage of the student aid package. In the private career schools, approximately 50 percent of all aid is in the GSL Program. This gives us great cause for concern. Obviously, debt burden, the inability to repay and the social consequences of that inability has severe mental, financial, and social implications for a student who is trying to make a better way in life.

I would also like to underline the fact that, as has been stated before, low-income students are now, unlike 6 years ago or 5 years ago, when the Higher Education Act was reauthorized, are just as likely to borrow as are the middle and higher income students.

I think it is essential that the committee know that we are not proposing major increases in the GSL Program and would like to emphasize the fact that the grant aid which has been so sorely below levels of 6 years ago, certainly below the levels after the Middle Income Student Assistance Act, ought to be increased. That should be the top priority of this committee and the Congress. If you look in terms of real dollars, the Pell grant today is worth almost one-half of what it was back in 1978. If you remember, in the Middle Income Student Assistance Act we were talking of an actual Pell grant at that time of 1,750, 1,650. It was reduced to 1,610. But really, not much smaller than it is 6 and 7 years later. And because of that, we strongly urge that the committee look toward increasing that, particularly for those students coming from low-income families.

In general, the Guaranteed Student Loan Program is working quite well. Many of the incentives that were included in the program in the 1970's have been successful. The guarantee agencies and all States now are acting quite well. Sallie Mae is secure and doing an excellent job of providing secondary market capital. For the most part, private career school students do not have a loan access problem, as they did in the mid- to late seventies. A large part of that is due to increased awareness on the part of State agencies, Sallie Mae, and lenders, of the importance of the vocational school student to the American economy and to their own programs.

For many of these low-income students, GSL, forunately or unfortunately, represents a real bridge between welfare support by being able to go to college, a bridge to really a long-range career and financial independence.

Now, for the most part, debt burden is not a specific problem of the private career school student because they don't borrow very much money. They tend to be enrolled in very concentrated programs of 6 months to maybe 2 years; therefore, the maximum amount of debt upon their graduation would be about $5,000 at the maximum. In general, it is much lower than that, maybe around $2,500.

However, the problem is the ability to pay for the training while they're in school. That is why the GSL is such an important part of the student aid package. That being the case, I think it is important to focus on some recent studies that have criticized many types of institutions for the failure of students to complete their programs. I raise this issue because I think not enough attention has been given to the fact that there are many reasons outside the academic environment that a student doesn't complete training. First is that they may have financial or home problems that preclude them from continuing their education—and this is particularly true when we have reductions in student aid. Second—and this is true in many of the private career schools accredited by AICS—a student will attain sufficient skills to go out and get a job in the middle of the program. And while many studies consider these people noncompleters, in fact, they are successes and have found a job. That is their conscious decision and it is totally outside the ability of the school to impact. I see it as a positive thing.

Now, the one place where AICS disagrees with Dr. Smith and Dr. Mitchem is on the question of loan maximums. It's a very minor disagreement. AICS is advocating an increase in loan limits to

$3,000—in other words, a $500 increase. We basically concur with the American Council on Education's position, that the first 2 years should be only $3,000 and the third and fourth year should be $5,000.

We recommend this for several reasons. First of all—and this continues to really blow my mind when I think about it—the $2,500 maximum was established in 1972, 13 years ago. The purchasing power of that $2,500 is less than 40 percent. As a matter of fact, it's probably around 30 percent right now. For the most part, college costs have increased with the rate of inflation, as you noted earlier, Mr. Chairman, and certainly not any faster.

Second, private career college students don't have the advantage of large public subsidies as perhaps the community college system does. Therefore, they have to charge rates which are basically what the cost is of providing that training and education. Therefore, the remaining need of that student is much higher than what it is if you're attending a community college in the State of California, for example.

I would like to also observe that by not increasing the GSL, at least it is my observation over the last couple of years in the budget process, there is not a 1-to-1 trade off, per se, by the Congress in the appropriations, and that if you do hold back on the GSL increase, it is not going to mean automatically that Congress is going to put more money in the Pell Grant Program. While the Pell Grant Program is a quasi-entitlement, the GSL is a real entitlement. AICS is supporting and betting on the availability of the $3,000 other than the expectation or the hope that the Pell grant would increase by $500 to make up that differential.

Another issue that the committee asked us to address was loan consolidation and repayment. I think that, for the most part, we are in agreement with almost all the witnesses before you this morning, and that is that loan consolidation ought to be made available. It ought to be made available or authorized for all the current parties in the GSL Program, the State agencies, Sallie Mae, and lenders. We find that, to the extent you increase the participation of those parties, the more likely access will be available.

We would also like to concur with those who state that some form of graduated repayment may be beneficial to the program. Although we don't have a specific recommendation, it is important that the graduation or the rate that would be charged in the graduation is predictable as soon as the student goes into repayment. Otherwise, the cost of the GSL Program to the lender is such that they would be less inclined to make loans. And when lenders are less inclined to make loans, the first people they drop out of the program are those that are in short-term courses at community colleges and private career schools and those that borrow a small amount of money.

Finally, I would like to quickly address the $30,000 cap. Initially AICS, in drafting its higher education recommendations, was supportive of going to universal need. However, in looking at the needs analysis system provided, we find that if you eliminated the current $30,000 waiver, so to speak, most independent students would be precluded from obtaining a GSL, unless you allow the GSL to be used for paying for the expected family contribution of the student or the parent. That is our biggest concern.

As you will remember, Mr. Ford and Mr. Coleman, you and former Congressman Peyser spent probably over half of the reconciliation conference in 1981 on this one issue—what would be the needs analysis for this new GSL limitation. My biggest concern is that with the ability of the administration to basically move that around at will, the independent student making $15,000, for example, except at the very highest cost institutions in the country—I'm talking about those with tuitions around $10,000—would not be eligible for a GSL. I think if you look at the consequences of that, many low-income students who are technically independent, for whatever reason, would be precluded from getting a GSL.

I would also like to note four items that AICS has recommended and will be discussed at other hearings, just in case we don't get the opportunity to testify again.

We do recommend multiple disbursement of all loans to students in programs in excess of 600 clock hours, or two quarters, or one semester. We put that caveat on because it becomes very costly for a lender and for an educational institution to get involved in the multiple disbursement of a very short-term program.

Second, we support the concept of disbursement directly copayable to the institution and to the student, and the check would go to the institution.

Finally, we feel like its very important that there be a lender of last resort in all States in order to ensure access for all students. For the most part, full access is there now, although if there are major changes to the GSL Program as a result of budget reconciliation, we feel that that access may tend to dry up. Particularly if you impose some restrictions on the loan agencies with regard to defaults, that will have a detrimental effect on lending to the private career school student.

Finally—and this, Mr. Chairman, at least I feel that you take this position—the budget reconciliation, the budget process, is not the place to change the program. It is so complex and has already been changed so many times in the past decade that it is our hope you will continue to support the House position on the GSL cut and that the Senate would defer to your judgment. I can only think of worst-case scenarios when I think of the fact that the Education and Labor Committee and the Senate Labor and Human Resources Committee would have to report a reconciliation bill on education and the dangers of other types of amendments that could really mess up the process and the programs, particularly GSL, because it depends so heavily on third-party assistance.

Thank you.

[The prepared statement of William C. Clohan, Jr., follows:]

Prepared Statement of William C. Clohan, Jr., General Counsel, Association of Independent Colleges & Schools

ASSOCIATION OF INDEPENDENT COLLEGES & SCHOOLS

The Association of Independent Colleges & Schools (AICS) was founded in 1912 and now has a membership of 636 diverse business schools and colleges and another 337 branch campuses. Its institutions range from business or specialized schools offering training of up to one year in length to junior and senior colleges offering recognized associate and baccalaureate degrees.

Approximately 595,000 students are enrolled in these institutions, representing a broad range of income and racial backgrounds. Approximately 90% of the AICS-accredited institutions are taxpaying business corporations; all of the institutions are non-public. In common with all non-public institutions, they are either entirely or primarily tuition-dependent for operating revenues.

AICS member institutions are accredited by the Accrediting Commission of the Association of Independent Colleges and Schools. Since 1953, the Accrediting Commission of AICS (formerly known as the Accrediting Commission for Business Schools) has engaged in the evaluation and accreditation of independent colleges and schools. In 1956, the Accrediting Commission was officially designated by the U.S. Commissioner of Education as a nationally recognized accrediting agency. Such recognition has been renewed since that time and now extends through 1985.

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to testify before the Subcommittee this morning regarding the federal student loan programs, specifically the issues of debt burden, loan limits, loan consolidation and repayment, income cap, and needs analysis.

I am William C. Clohan, Jr. and I serve as a General Counsel for the Association of Independent Colleges & Schools (AICS). My remarks today represent the views of private career school owners and students. In addition to the 950 schools, colleges, and branch campuses served by AICS, there are an additional 2,000 private career institutions accredited by national accrediting agencies recognized by the Secretary of Education. These institutions serve over 1.1 million students and the students are eligible for federal student financial assistance.

PRIVATE CAREER EDUCATION IS A NATIONAL EDUCATIONAL RESOURCE

Private career schools and colleges educate three of every four postsecondary vocational students in the country, according to the Department of Education's National Center for Education Statistics. The primary purpose of private career schools and colleges is to educate students for a specific job and to help them find related employment. Enrollments at these institutions have increased significantly during the past decade, reflecting the focus on skills training which meets the needs of the local business community and the student.

In general, the student body population attending private career schools is composed of a larger percentage of minority and disadvantaged students than the postsecondary education community at large. A study conducted by the National Commission on Student Financial Assistance indicates that approximately 54% of the students attending these institutions are from low-income families. These facts are particularly important for the Congress to remember when they deal with issues relating to the Guaranteed Student Loan program. A precipitous reduction in federal student aid, including availability of loans, will force these students to seek jobs without skills or experience in a very difficult employment market.

LOANS MAKE UP AN INCREASINGLY LARGER PORTION OF A STUDENT'S AID PACKAGE

Appropriations for non-loan programs authorized by Title IV of the Higher Education Act have not kept pace with inflation. This has forced students and their parents to look for alternative sources of assistance in order to attend a postsecondary institution. While loans made up approximately 13% of all federal student assistance in 1978, almost 50% of all federal student assistance provided students attending private career schools is in the form of loans.

Moreover, these students pay the largest share of their educational expenses out of their own pockets, according to the National Commission report cited above. A recent study conducted by the Pennsylvania Higher Education Assistance Agency indicates that low-income borrowers are more likely to default. Given these facts, it is essential that Congress review the current mix of loan, work and grant programs which provide funds for postsecondary students. An increase in the Pell Grant maximum and allowing proprietary school students to use their College Work-Study on campus are but two ways to reduce the dependence on loans.

THE GUARANTEED STUDENT LOAN PROGRAM IS, IN GENERAL, WORKING WELL

In recent years, access to federal student loans for private vocational school students has increased substantially. During the 1970's, there were pockets of non-access throughout the country which undoubtedly precluded many students from attending postsecondary institutions. Currently, and I emphasize currently because of our concern about changes to the program that could result from the budget resolution under consideration by the Congress, most students in this country have access to a federal loan. This fact results, in large part, from the increase in the number of lenders of last resort throughout the country and the recognition by state agencies, non-profit independent guarantors, and Sallie Mae that the vocational school student represents an important segment of the postsecondary population.

AICS recognizes that the increased growth in the GSL program has resulted in increased costs for the federal government. However, those costs are well spent because of the leverage obtained from providing loan capital from private sources. The federal loan programs have become a vital source of financial support for low and middle income families who are unable to otherwise afford a postsecondary education. For many, a GSL represents the bridge from welfare support to a career with financial independence.

DEBT BURDEN IS GENERALLY NOT A PROBLEM FOR PRIVATE CAREER SCHOOL STUDENTS

Programs provided by private career schools and colleges are highly concentrated and provide necessary skills training in a short period of time. Because of this fact, students attending these institutions don't incur a large amount of debt. Study after study has shown that if a student graduates and obtains a job, that student is likely to repay the loan. The difficulty for many students attending AICS institutions is not whether the debt burden will be so large upon graduation that the borrower will be unable to repay, but instead whether they can subsist on the amount of aid provided while they are in school.

A great deal has been made recently of noncompletion rates by students attending postsecondary institutions. If one looks at the underlying facts, it is clear that there are at least two reasons for noncompletion that are totally outside of the control of the institution. First, a student may find a job with the skills provided in the first part of the postsecondary program. Second, home responsibilities, such as child care, and financial requirements often force a student to drop out prior to the completion of their training. In fact, many state and federal laws reduce or withdraw other assistance when the student attends school and receives federal student assistance, thus, reducing total assistance at a time when it is most critical.

THE LOAN LIMITS SHOULD BE INCREASED TO REFLECT THE IMPACT OF INFLATION

The $2,500 loan maximum was established in 1972. At current value, $2,500 today represents 40% of the buying power of a maximum loan available to a student in 1972. Given that college costs have increased at about the same rate as inflation in general and grant aid has not kept pace with inflation, Congress must increase the loan maximum to better reflect the true costs of a college education. AICS has recommended that for first and second year students, the loan maximum be increased to $3,000. The Association also supports the American Council on Education in expanding the loan limits in the third and fourth year to $5,000 per year. The cumulative borrowing limits should be raised accordingly.

LOAN CONSOLIDATION SHOULD BE AVAILABLE TO ALL BORROWERS WHERE DESIRABLE AND FEASIBLE

While graduates of private career schools generally do not have large outstanding loan balances, loan consolidation should be made available to all students where a lender, state agency, or Sallie Mae is willing to make that consolidated loan. Certainly, students with larger loan balances need the flexibility to consolidate their loans and repay in a manner which makes financial sense to them and the lenders.

One of the major debates during Congressional consideration of loan consolidation in prior years has been who should be allowed to consolidate. We encourage the Congress to support the previous House position that all parties to the federal student loan programs, if capable, should have the authority to consolidate loans. Access to borrowing and other benefits of the federal programs should be encouraged; there is no greater way to provide this access and encouragement than to make all parties eligible.

If the Congress does consider some form of repayment which is different than the straight line amortization provided for in current law, AICS encourages Congress to consider a graduated repayment method. By lessening the financial burden in the early years and increasing it in later years to reflect increased salaries, the Congress would remove one of the major reasons that borrowers default—their inability to meet monthly payments.

THE $30,000 INCOME CAP FOR REQUIRING NEEDS ANALYSIS IN ORDER TO OBTAIN ELIGIBILITY FOR GSL SHOULD BE RETAINED

Under the current need analysis systems, most independent students with incomes of less than $30,000, if required to undergo a need analysis, would be considered ineligible for GSL. Thus, many students would be prevented from obtaining a postsecondary education because they could not borrow under the GSLP.

Although not many students attending private career schools and colleges would be affected by the $60,000 adjusted gross income cap on GSL eligibility, it does not seem to make sense to totally exclude a family or individual with this income if they can demonstrate, based on a true need analysis, that they do not have need for loan support. An arbitrary income cap, such as the one recommended by the Administration, only serves to create ratchets or glitches in what otherwise is a very rational loan program.

AICS RECOMMENDS CERTAIN OTHER CHANGES TO THE LOAN PROGRAMS TO INCREASE THEIR EFFECTIVENESS

Although not the subject of discussion at today's hearing, AICS has recommended the following in order to improve the GSL program:

Mandate multiple disbursemet of all loans to students in programs in excess of 600 clock hours, two quarters, or one semester.

Mandate disbursement of the GSL check copayable to the institution and the borrower and require the endorsement of both the institution and the borrower.

Require the lender of last resort in all states in order to ensure access for all students.

THE FEDERAL STUDENT LOAN PROGRAM SHOULD BE AMENDED DURING REAUTHORIZATION AND NOT AS A PART OF THE BUDGET PROCESS

It is essential that Congress recognize that this program is highly complex and also subject to program objectives of the Congress. Tinkering with the program as a part of the budget process only results in student, parent, lender, state agency, and educational institution uncertainty. There have been too many changes in the GSL program during the past decade and to force new changes as a part of the budget reconciliation would continue to undermine the program. The reauthorization process is much more effective and will result in better legislation and a better program. We, therefore, urge you to support the House position on the budget resolution in making no changes to the GSL program this year.

Mr. **Ford**. Thank you very much.

Mr. **Coleman**. Mr. Chairman, I would like to ask Mr. Clohan to clarify two points. Are your institutions mainly 1 to 2 years or less?

Mr. **Clohan**. That's right.

Mr. **Coleman**. Therefore, your recommendation on increasing loan limits really wouldn't impact on your institutions by more than $500.

Mr. **Clohan**. That's correct, yes.

Mr. **Coleman**. Do you feel that your students would need more than $3,000 a year or would $3,000 be sufficient? Or are you looking at a broader and not so much a parochial view on this?

Mr. **Clohan**. We are looking at a broader view on it, frankly. Our original recommendation—as a matter of fact, the recommendation submitted to this subcommittee 2 years ago—was $3,500. It recognizes the fact that the average tuition of the private career school is about $4,500 now. When you add in other costs of education, it gets close to $6,000, $5,500 to $6,000. We have moved back on our recommendation on the loan limit as a recognition that there are concerns about debt burden, there are concerns, as Dr. Mitchem has pointed out, that really GSL is becoming a tradeoff for Pell grant appropriations or other grant-in-work aid. And although we don't agree with that totally in a technical sense, we want to at least encourage the Congress to consider more grant-in-work aid in lieu of higher loans.

I mean, certainly if you look at $2,500 in 1972, there is a tremendous amount of justification for increasing it a lot higher than $3,000.

Mr. COLEMAN. Dr. Mitchem and Dr. Smith, you were here before and heard the testimony of the previous panel when they talked about the concept of remaining need for GSL.

Do you support that concept, and if not, why not?

Dr. SMITH. Mr. Coleman, I would support it. I think especially for students who come from low income groups, that it is important not to allow them to get too far into debt.

Dr. MITCHEM. I would concur with that, Mr. Coleman.

Mr. COLEMAN. Have you found when your students take out a loan that because that money is available—$2,500 is a lot of money to a young person, as you detailed in your testimony—to go ahead and take the full amount even though they don't need it? Have you found that to be the case, or have you found lending institutions to be pushing loans on students even when they are unnecessary to meet their needs?

Dr. MITCHEM. No; I can't think of any instance where a bank was unnecessarily aggressive in pushing a student to take a higher amount than they might need, nor can I recollect any instance in recent time where I thought a student had taken out money that they didn't need to get.

However, I do remember instances in an earlier period when I thought individuals borrowed more money than they actually needed, but not in recent times. I think it is because the costs have increased so that they need the dollars that they're using.

Mr. COLEMAN. How do you counsel a student in preparation for next year? What do you tell them about what kind of loan program will be available?

Dr. MITCHEM. Well, at Marquette, at least, we—how shall I put it? The institution is strongly behind what we're doing in terms of putting up their own funds, as I tried to indicate in my testimony. I think you can make some kind of ball-park guess in terms of what money is going to be available in terms of Federal funds. Perhaps we're being overly optimistic, but we think the Pell and SEOG, basically the programs would be in place, and to the extent we can, we will make up the difference with institutional aid and again, unfortunately, the guaranteed student loan. So we are moving. We're rolling. We are processing students, bringing them in.

The uncertainties aren't as great right now as, let's say, they were in the earlier part of this year, because a lot of people interpreted the President's remarks to mean this is the policy, so you have to educate the people to understand that the President proposes and the Congress disposes. I think a lot of the people we are talking to now are beginning to understand that.

Mr. COLEMAN. What are your views on income caps for program eligibility? Do you support or oppose that?

Dr. MITCHEM. I don't know. I think the $32,000 was too low. I suppose I could support an income cap of $60,000 or $70,000, somewhere in that neighborhood. But I thought the $32,000, the initial proposal, was too low and was unrealistic.

Mr. **Coleman**. How about the others? I don't believe that you commented on them or not.

Mr. **Clohan**. Yes; I did in my testimony, although not in my verbal remarks.

I think that any type of cap, like $60,000, assuming it's on adjusted gross income and assuming there is a remaining need demonstrated, is unnecessary, except as a perceptual problem that you, as Members of Congress, and we, as part of the education community have to deal with. The examples given previously by Dr. Cronin and others I think is indicative of the fact that there are people out there that make more than $60,000 that have a real need

So the $60,000 cap is only worthwhile and probably only justifiable, in my mind, as a means to securing credibility for the GSL Program.

Dr. **Smith**. I did not take a position in my testimony because, quite frankly, it does not affect my student body, with 55 percent of them coming to the college with incomes of $8,000 a year or less. But as an educator, I would say that we should operate on the premise of remaining need rather than any artificial cap.

Mr. **Coleman**. Thank you.

Mr. **Ford**. Mr. Hayes.

Mr. **Hayes**. Thank you, Mr. Chairman.

From where I sit, as a Congressman representing the poorest district in the whole State of Illinois from the point of view of per capita income, whose geographical boundaries are within the predominantly black neighborhood, the Pell grants have been very helpful. But as I analyze the proposals now being advanced, as we try to reduce the deficit, it appears to me that the whole Pell Grant Program and assistance programs for economically disadvantaged students to go into institutions of higher learning are going to be greatly jeopardized.

Now, there are some of us who feel, and some of the students themselves, who feel that the attack on the whole public educational system is by design and not one by accident, that there is no need for some of these economically disadvantaged students to be educated in the future. So I just wanted your reaction to this feeling. I think we're on the threshold of a danger that the baby is being thrown out with the bathwater if we aren't careful.

Dr. **Smith**. Mr. Hayes, I would like to try to give you a couple of illustrations. I just said something about the income level of students at the college where I presently am president. What I didn't say is that that student body is more than 85 percent black, Hispanic, and Asian, and it is more than two-thirds female, many of them single parents.

We see the effect of the Pell grant in two ways. Students come to college unable to buy books. We have to make Pell grant advances. Student governments find ways to give them short-term loans, and it's never enough. When the Pell grant check is finally distributed—and, by the way, we require them to go to class and we have the faculty certify their attendance, and we later require rates of academic progress. But when that first Pell grant check comes—and there are so many of them that the neighboring branch of the Chemical Bank opens up its basement to cash those checks, because we have about $11 million a year in Pell grants, in one college—the first indication of the benefit of that Pell grant is bookstore sales instantly go up, cafeteria sales go up for about 2 weeks, people who had been brown bagging it or not eating too much at all are then able to have a decent meal, even though they may complain about the prices.

The Pell grant is absolutely essential if we are to maintain access to higher education for minority students, especially those who are in impacted areas in inner cities. Without it, they will be assigned to—I hate to say it—a human scrap heap. With the Pell grant, we have students coming by the thousands to one institution who probably never saw lower Manhattan ever in their lives, and now they're coming to school in a place that is surrounded by the stock exchanges, the banks, insurance companies and the world's finance center, and they tell me quite directly, "I came here—" they point out the window and say, "I want a job over there. That's why I came." They can't do it without the Pell grants.

Dr. **Mitchem**. I would just like to say, Mr. Hayes, I don't know if there's a conspiracy against public higher education or minorities in postsecondary education, but I will say the trends are working against those interests right now. You are quite correct in making that observation. I was in your district over the weekend, and a thousand people were there, and they share your feelings.

But, in part, that is the reason why the organization I represent is taking the position that there should be no increase in the loan limits, because we have to focus more attention on the Pell and we have to create a political climate that will encourage people to put more money into Pell, not necessarily at the expense of the guaranteed student loan, but certainly we have to move the Pell program.

Mr. **Clohan**. Mr. Hayes, if I could quickly comment on an issue that kind of surrounds the one you're talking about, the State of Illinois—and this gets to Mr. Atkins' question earlier—has a default rate of about 11.3 percent. It is one of the five or six States in the country that exceeds ten percent in the aggregate.

If loan default rates were imposed as a greater criteria for cutting off financial institutions, educational institutions, and ultimately and most importantly students from access, my prediction in the State of Illinois is that about 75 percent—and this is a gut reaction; I have no basis, but I can try to give you a basis of you like—75 percent of those students that would be excluded would be from community colleges and private career schools, and they would be minorities.

If you look at the default rates throughout the country, State by State, those that have the greatest default rates are from disadvantaged backgrounds. The Pennsylvania Higher Education Assistance Authority came out with a study recently that demonstrated there is almost a 1-to-1 relationship between the income level of the student when they first borrow and their likelihood to default later on. So it is no surprise to anybody that the higher default rates are at those institutions that have the largest percentage of low income students. Congress, as a policy matter, ought to recognize that fact and make some judgment of whether it is worthwhile to continue allowing those students to continue on in postsecondary education.

Mr. **Hayes**. Thank you, Mr. Chairman.

Mr. FORD. I would observe that that hasn't always been the case. I remember when Secretary Bell imposed his cutoff on NDSL over 20 percent, I believe it was——

Mr. CLOHAN. It was 25 percent. But then, also, there was a 10 percent variation cutoff, too.

Mr. FORD. I saw that first list of 140 schools that were going to be cut off and was surprised to find that most of them were small, private, nonprofit church-related institutions. Of course, that didn't mean that the populations attending those institutions are not the kind of people who pay their bills. What was discovered was the school never tried to collect the money. They had to have a fire lit under them before they started doing their job. It wasn't the students who were at fault at all, but we were getting the rap for those students.

The assumption that I had been making was what you just said, that it would be found in the large urban settings, with a high percentage of low-income students, when, in fact, when you look at the national sample, it didn't turn out that way by institution, when you started looking at that program, NDSL, which is, as you know, targeted to the low-income students. So the lower income students going to that type of institution were reflecting a pattern that is very much like you're describing now for the other type of institutions.

It is a sad but true fact that for most people in this country, the circumstances into which they find themselves thrust by acts of inadvertance pursues you throughout your life. We try, with social tinkering and with programs like this, to interrupt the predictability of that, and succeed to some degree. If we succeed at all, some people are satisfied that we have done something and we can forget it. Most people who look at it feel that we made an awful good appearance in progress for a period of time. Mr. Hayes and I, as one who has been around watching these programs and how they work as long as I have, could fail to see that. While I wouldn't go as far as to suggest, as Mr. Mitchem demured, that there's a conspiracy to have this happen, by benign neglect it is what's happening. Nobody in this Congress since I have been here would literally stand up and suggest that we adopt a policy that would produce the results we're getting. That just wouldn't happen. I don't suggest that this administration or any that preceded it have adopted policies consciously that have produced it. But it didn't start to happen with Mr. Reagan. It's been happening to us for some period of time. The weakness of the Congress is that we are unable, in the constraints of playing budget 6 months out of the year, to get people's attention off the deficit long enough to talk about how we're losing ground.

I am glad you do raise that consideration. It really is at the heart of the overall question that we're trying to resolve with this legislation, trying to assert that the investment that this legislation represents is worth its share of the pie.

Mr. Dymally.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

For a while I thought this question might have been regional, but after listening to this very interesting conversation I think it has some national implications.

For the first time, California imposed tuition in the community colleges—the last year, year before last?

Dr. SMITH. This September.

Mr. DYMALLY. This September. And we had a 20-percent drop in overenrollment. Now California has a major surplus. They are having problems with how to give back the money. So my question, Dr. Smith, is how are you going to resolve this apparent contradiction in California, considering the fact that it is hitting your schools more so than the State colleges or universities?

Dr. SMITH. In California there is a sunset provision, I believe, in 1987 on tuitions, so the whole issue will be raised again. As I remember the debate in California, it was either you do it or else. I come from a State where we thought the "or else" would never happen, and the doors of the city university were chained for 2 weeks. The budget was cut by 30 percent. The staff was cut by 29 percent, and tuition went from zero to $750 in the community colleges. It is now $1,200. Our enrollment dropped off, too.

We had a comprehensive program of financial aid provided by the State, and it took a while to get the information out to minority communities that it was there. An estimate by the Governor of California is that two-thirds of the money for financial aid in community colleges hasn't been used this semester, and I would venture to guess that that's because people don't even know it's there.

I will press to get that information out and hope that every dime is wrung out of that financial aid program. We will join the debate again on tuitions. But I would say to you that my position would be, if it is either/or, I would rather preserve the institution, provided that there is something there that the State is willing to do. Now, with a surplus, they ought to be doing more. You will find me advocating that over the coming year, beginning in September.

Mr. DYMALLY. I would like to get your speculation on how does a small tuition of $50 cause such a major drop in enrollment. It's a small cost for most people.

Dr. SMITH. I know, because $50 per term can be spent on a pair of sneakers. It probably sent a message. Remember, there are other kinds of reforms that are taking place, too, the rate of progress standards, and in some instances you may have some people who are just hanging around because it's a place to go. I'm pretty sure that's what happened in New York City.

But, then, add the other messages. It is not simply the message from Sacramento. It is a message that has come from Washington. It is the message that has come from the Secretary, where apparently students are off absconding with the money and they need to divest themselves of phonographs, automobiles, and beach vacations. There are people who believe this.

Take San Diego. The application rate for black students this coming semester in September is down by 17 percent, and nobody seems to know why. I think that some of it has to do with the quality of the messages that are being sent. People who believe that opportunity was once there, are saying "Now that it's my turn to get it, they're putting tuition on me." That's exactly the perception that they had in New York City. It's going to take a lot of work on the part of community college chief executives, and admissions and financial aid counselors, to convince students that that, in fact, is not the case.

Mr. **Dymally**. A final comment.

I take it you're saying that one of your challenges is to get that message out, that now that we have tuition in there, there might be some other ways to pay that tuition through some loans, et cetera?

Dr. **Smith**. Not through loans. There's a $15 million financial aid program administered out of Sacramento. One of the things I am going to find out is why in the dickens wasn't it used and not to turn it back to the State government.

Mr. **Dymally**. Thank you very much, Mr. Chairman.

Mr. **Ford**. Thank you very much, gentlemen.

Our last panel, to whom I must apologize for the time in bringing you on, is Miss Marjorie Dickinson, director of special projects, California Postsecondary Education Commission; Denise Crafts, student; Dr. Charles King, dean of the University of Detroit School of Dentistry; and Mr. Kenneth Ashworth, president-elect, State Higher Education Executive Officers Association, and commissioner of the coordinating board of the Texas College and University System.

Dean King, it is a special pleasure to see you here today. One of your predecessors is coming back to Michigan about now, I think, as president of Michigan State.

Dr. **King**. That's right.

Mr. **Ford**. I think John was the dean of your school for a short time, was he not, or acting dean?

Dr. **King**. Yes, sir, he was assistant dean of the dental school.

Mr. **Ford**. We're happy to have him back in Michigan. Thank you.

We will start in the order your names appear here. Miss Dickinson.

STATEMENTS OF MARJORIE DICKINSON, DIRECTOR OF SPECIAL PROJECTS, CALIFORNIA POSTSECONDARY EDUCATION COMMISSION; DENISE CRAFTS, GRADUATING SENIOR, SYRACUSE UNIVERSITY; CHARLES KING, DEAN, UNIVERSITY OF DETROIT SCHOOL OF DENTISTRY, APPEARING ON BEHALF OF THE AMERICAN ASSOCIATION OF DENTAL SCHOOLS; AND KENNETH H. ASHWORTH, COMMISSIONER, COORDINATING BOARD, TEXAS COLLEGE AND UNIVERSITY SYSTEM, APPEARING AS PRESIDENT-ELECT, STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

Ms. **Dickinson**. Thank you.

Mr. Chairman and members of the committee, my name is Marjorie Dickinson. I am director of special projects for the California Postsecondary Education Commission.

Before I speak to your particular concerns about guaranteed student loans, I would like to briefly describe the commission and how we got involved in the guaranteed student loan issue.

The California Postsecondary Education Commission is an independent, bipartisan State agency charged with providing advice and information to the California Legislature and the Governor. A year ago, legislative concern about the incredible growth of the GSL Program in California—we are now doing 650 million dollars' worth of lending to 225,000 students every single year, after not having a State guarantee program in 1978. It has grown radically in the last 6 years. But the growth of the program, the increasing role of loans and student aid packages, and the students' increasing dependence on loans, as well as loan defaults, led the legislature to ask the commission to examine a number of issues relating to student borrowing and defaults.

In responding to this request, the commission adopted a report, "Mortgaging a Generation," which among the four areas it identified for improving the GSL Program were debt burden and improved debt management. Those are the subjects I would like to talk to you about today.

In attempting to determine the appropriate role of loans and student aid packages, the commission examined the current role of loans in financial aid packages in California and the extent of student debt burdens and issues of debt management. Among the findings that we made were that while California students are exhausting all the other resources for financial aid before turning to loans, average indebtedness is increasing among currently enrolled borrowers. Our currently enrolled borrowers are borrowing higher amounts that the repayers are repaying. The other major finding is that current maximum loan limits appear to exceed the capacity of some groups of borrowers to repay.

In the aggregate, California borrowers currently have relatively low accumulated debts—they are not hitting up against the loan limits—but their growing dependency on borrowing in our opinion warranted an examination of the manageability of larger and larger debt burdens. Based on that concern, we did look at manageable indebtedness and found that under current repayment provisions, the standard single payment every month for up to 10 years, the current maximum cumulative loan limits already exceed the ability of many groups of borrowers to repay. The information we have looked at showed that, with the exception of students who receive medical doctorates, every group of degree holders—masters degree recipients, MBA's, law students graduates and Ph.D.'s—who borrow the current maximums, could be faced with indebtedness levels that are beyond their capacity to repay comfortably. For some of these groups, alternative repayment, as has been discussed earlier, does relieve some of that problem. It gives them a longer time or a greater ability for graduated repayment provisions.

In addition, we also examined the ability of recent graduates with student loan obligations to obtain other kinds of credit—bank credit cards, auto loans or home loans—and found that students with high indebtedness, say a student $10,000 in debt after their graduate program, or $18,500 after a graduate program, will typically have to postpone major purchases for at least a time after entering the workforce, and that the funds needed to repay those student loans—remember, the total amount you repay on a $10,000 loan is about $14,500 over the 10 years, and for an $18,000 or $19,000 loan, you are repaying approximately $31,000—that that money could instead, for students who do not have indebtedness at that level, be used to establish savings for major purchases such as automobiles, homes, or their children's education.

Clearly, college graduates with substantial student loan obligations will not be able to borrow extensively or save for such purposes in the first years after finishing their education. The impact of this increasingly common set of circumstances has, in our opinion, major implications for the overall health of the economy.

In some ways, while we were developing our report on this, some actually argued that this kind of analysis might lead to the conclusion that the current maximum loan limit should be actually reduced, which is certainly what has been discussed at today's hearing, or retained only for certain high income fields of study like medicine or computer science. But given the current costs of education, the commission concluded that the current loan maximums are not unreasonable and that it does not appear wise to set maximum loan limits on the basis of student academic majors for a variety of reasons. Fields of study are only partly related to career fields and future income levels. To impose loan limits in particular fields would restrict some students' abilities to pursue their chosen disciplines or encourage them into career choices or degree choices simply to finance their educations.

Finally, in commenting on some of the proposals heard today to increase annual and cumulative loan limits, we believe there are real questions of equity, as well as the economic stability of future generations of college graduates, that are raised. We believe the loan limit should be maintained at current levels if at all possible.

Just as an example, in California students from low- and middle-income families borrow substantially more to finance their educations than do students from upper income families. If you view postsecondary education as an opportunity to eliminate some of the inequities caused by different socioeconomic backgrounds and bring a generation, for example, to the same starting gate, saddling some of those students, especially those with the least affluent backgrounds, with thousands of dollars of debt is simply another way of continuing social and economic polarization through another generation.

In light of this, we believe that at a minimum some consideration of what those dollars that would be expended to subsidize the higher loan limits could buy in the way of additional grant money, or could leverage in the way of work-study opportunities, before we increase the loan limits.

Unrelated to the maximum loan limit question, there are some other steps that can be taken to keep debt burdens manageable. Better counseling has been talked about today. Students simply need to know what the implications are for borrowing every time they take a loan out, what their opportunities for jobs are, what the repayment provisions are, those kinds of things.

The second thing I mention briefly. Modified repayment. If you graduate repayment over a period of time, and/or extend repayment from the current 10 to 15 years, students can manage to repay more than they are currently borrowing.

Finally—and you have discussed this at length today—we do believe that eligibility for guaranteed student loans should be based on a demonstration of financial need.

I think these comments have responded to your specific question about loan limits and debt burdens. We did make some general recommendations that I would like to summarize briefly for potential cost savings, reducing unnecessary borrowing, and limiting dollars at risk for default that are a little broader than the loan limits question:

As I said, demonstration of financial need for all applicants, rather than only those from families with incomes of more than $30,000; limiting the amount that can be borrowed each year to the amount of remaining need, or $1,000, whichever is less, with no increase in the cumulative or annual loan limits; require multiple disbursement of loans; and reinstate options for students to consolidate their loans and encourage flexible repayment provisions and graduated repayment provisions.

I appreciate the opportunity to speak to these issues.

[The prepared statement of Marjorie Dickinson follows:]

Prepared Statement of Marjorie Dickinson, Director of Special Projects, California Postsecondary Education Commission

Mr. Chairman, members of the Committee, my name is Majorie Dickinson. I am Director of Special Projects for the California Postsecondary Education Commission. Before I speak to your particular concern about Guaranteed Student Loan cumulative loan limits, I would like to briefly describe the Commission and how we got involved in GSL issues. The California Postsecondary Education Commission is an independent, non-partisan State agency charged with providing advice and information to the California Legislature and Governor on postsecondary education policy issues. A year ago, legislative concern about the incredible growth of the GSL program in California, the role of loans in student aid packages, students' increasing dependence on borrowed funds, and loan defaults, led them to request the Commission to examine a number of issues related to student borrowing and defaults:

1. The characteristics of student borrowers, defaulters, and institutions with high default rates;
2. The level and causes of defaults;
3. Responsibilities outlined in federal statutes for determining institutional and student eligibility to participate in loan programs and ways to prevent and recover defaulted loans;
4. The elements of loan costs and who pays them;
5. The role of loans in assisting students to finance their education;
6. Aggregate debt burdens and typical repayment provisions; and
7. The procedures of the California Student Aid Commission for issuing guaranteed student loans and ensuring their repayment.

In response to this legislative request, this past March the Commission adopted a report, Mortgaging a Generation: Problems and Prospects of the California Guaranteed Student Loan Program, which identifies four areas, including debt burden and improved debt management, as central to improving the GSL program in California.

DEBT BURDEN AND DEBT MANAGEMENT

In attempting to determine the appropriate role of loans in student aid packages, the Commission examined the current role of loans in financial aid packaging, the extent of student debt burdens, and issues of debt management. It found that:

On the average, loans make up to 20 percent or less of the total resources used by all financially dependent California students to cover their educational costs and less than a third of the total resources used by all independent students for these costs.

California students appear to make maximum use of parental support, work earnings, and grant aid in financing their education before taking out loans.

Currently, the vast majority of California Guaranteed Student Loan borrowers—both those currently enrolled and those who have completed their program and have begun repaying their loans—have Guaranteed Student Loan obligations of $5,000 or less.

The average indebtedness of currently enrolled borrowers in California is higher than that of borrowers who have begun repayment, indicating a trend toward increasing reliance on borrowing.

The level of student loan debt that theoretically is manageable varies with the level and type of degree earned.

Current maximum student loan limits may exceed the capacity of some categories of borrowers to repay their loans comfortably under current repayment provisions.

Although in the aggregate California borrowers currently have relatively low accumulated debts, their growing dependency on borrowing warranted an examination of the manageability of larger and larger levels of student debt. The Commission's findings, based on the work of Dwight Horch at ETS, were that under current repayment provisions, current maximum cumulative loan limits of $12,000 for undergraduates and $25,000 for graduate students already exceed the ability of many groups of borrowers to comfortably repay.

With the exception of M.D.s, every group of degree holders—masters, MBAs, Law, or Ph.D.s—who borrow the maximum would be faced with unmanageable repayment obligations. For some group of borrowers longer term graduated repayment options relieve this problem.

TABLE 25.—MAXIMUM LOAN ELIGIBILITY AND CURRENT AND PROJECTED THEORETICAL MANAGEABLE STUDENT LOANS FOR STUDENTS GRADUATING IN THE CLASS OF 1984

[In thousands of dollars]

Degree	Maximum loan eligibility	Current theoretical manageable loan	Projected theoretical graduated repayment options	
			10-year	15-year
Bachelor's	12,500	5,000	8,500	13,500
Master's	25,000	6,500	11,000	18,000
M.B.A	25,000	10,000	16,000	26,000
Law	25,000	8,500	17,500	29,500
Doctorate	25,000	10,000	14,000	22,500
Medicine	25,000	30,500	49,000	80,000

Source: Horch, 1984, p. 21.

TABLE 26.—MAXIMUM LOAN ELIGIBILITY AND CURRENT AND PROJECTED THEORETICAL MANAGEABLE STUDENT LOANS FOR STUDENTS GRADUATING IN THE CLASS OF 1989

[In thousands of dollars]

Degree	Maximum loan eligibility	Current theoretical manageable loan	Projected theoretical graduated repayment options	
			10-year	15-year
Bachelor's	12,500	6,500	10,000	16,500
Master's	25,000	7,000	12,500	20,000
M.B.A	25,000	11,000	18,000	29,000
Law	25,000	10,000	20,000	34,000
Doctorate	25,000	12,000	17,000	27,000
Medicine	25,000	37,000	61,000	100,000

Source: Horch, 1984, p. 21.

In addition, the Commission examined the ability of recent graduates with student loan obligations to obtain other credit (bank credit cards, auto loans, or home loans, for example) and found that students with high loan indebtedness ($10,000 undergraduate, $18,500 graduate) will typically have to postpone major purchases for at least a time after entering the work force, and that the funds needed to repay student loans—$14,500 for the bachelor's recipient and $31,000 for the master's recipient—could instead establish the resource base for major purchases such as an automobile, home, or a child's education. Clearly, college graduates with substantial student loan obligations will not be able to borrow extensively for such purchases in the first years after finishing school. The impact of this increasingly common set of circumstances has major implications for the overall health of the economy.

STEPS FOR KEEPING DEBT BURDENS MANAGEABLE

Some might argue that the preceding analysis leads to the conclusion that current maximum student loan limits should be reduced or else retained only for certain high-income fields of study like medicine or computer science. Given the current costs of education, however, the Commission concluded that the current loan maximums are not unreasonable. For students attending four years at most independent colleges in California, a maximum Guaranteed Student Loan each year would cover something less than a quarter of their costs. If loan limits were reduced, students would have to make up the difference from other aid sources. Grant funds are unlikely to increase enough to reduce dependence on loans significantly. For example, doubling the major State-funded grant programs in California to $200 million would represent less than one-sixth of California's Guaranteed Student Loan borrowing—or about $400 on a maximum $2,500 loan. Many if not most students already work to help cover part of the costs of their education. Although several studies have shown that working, particularly on or near campus, actually improves persistence for some students, it would appear that, at some point, requiring full-time students to work more and more hours could result in diminishing educational returns.

Moreover, it does not appear wise to set maximum loan limits on the basis of students' academic majors. Fields of study are only partly related to career fields and future income levels. To impose loan limits in particular fields would restrict some students' abilities to pursue their chosen disciplines and encourage them into particular degree programs or careers simply to finance their educations.

Even without changing the maximum loan limits, however, three important steps can be taken to keep debt burdens manageable: (1) better counseling, (2) modification in repayment provisions, and (3) basing eligibility on demonstrated need.

Finally, increasing annual and cumulative loan limits as has been recommended by several groups raises questions of equity as well as of the economic stability of future generations of college students and should be avoided if at all possible. For example, in California, students from low- and middle-income families borrow substantially more to finance their educations than do students from upper-income families. If you view postsecondary education as an opportunity to eliminate some of the inequities caused by different socio-economic backgrounds and bring everyone to the same starting gate, saddling some—especially those with the least affluent backgrounds—with thousands of dollars in debt is simply another way of continuing social and economic polarization through another generation. Some consideration of what those dollars needed to subsidize higher loan limits could buy in the way of grants or could leverage in work-study opportunities ought to be undertaken before we ask students to resort to more indebtedness.

I believe these comments have responded to your specific question about loan limits and debt burdens. Before I close I would like to summarize several recommendations from the Commission's report, Mortgaging a Generation which we believe have the potential for generating cost savings, reducing unnecessary borrowing or overborrowing, and limiting dollars at risk for default. At the same time, these suggestions would assure continued availability of loans for those students who must use them to finance their educations:

Require demonstration of financial need by all applicants rather than only those from families with incomes of more than $30,000.

Limit the amount that can be borrowed each year to the amount of remaining financial need as shown on the Guaranteed Student Loan application or $1,000, whichever is less. In no case should the annual loan limit exceed the current maximums of $2,500 for undergraduates and $5,000 for graduate students.

Require multiple disbursement of loans.

Continue to consider institutional default rates as a factor in the determination of whether administrative, legal, or fiscal limitations on institutional participation should be implemented.

Reinstate options for students to consolidate their loans and encourage flexible repayment provisions including variable or graduated repayment and extended repayment periods.

I hope these comments have been useful to you. I would be pleased to answer questions about them or about other aspects of the Commission's examination of the California Guaranteed Student Loan program.

Mr. **Ford**. Thank you very much.

Now Denise Crafts, a student.

Ms. CRAFTS. Thank you.

Mr. Chairman and members of the committee, my name is Denise Crafts. I would like to thank you for the opportunity to speak with you this afternoon.

I am a graduating senior from Syracuse University. I am also a veteran of 4 years in the U.S. Air Force and, as an independent student, I have financed my own education through part-time jobs, the New York State Student Incentive Grant Program—the Tuition Assistance Program, TAP—full-time summer jobs, Pell grants, supplemental educational opportunity grants, and federally subsidized student loans. In addition to earning my tuition, I also supported myself while going through school, was president of my student government, and was an actively involved citizen in the city of Syracuse.

The subject I want to discuss with you this afternoon is student loans. Student loans at one point were probably geared more to help the middle class students, as has been mentioned many times today. But at this point they have come to where lower income students also need them to supplement their finances for going through school.

I, myself, am a case in point. Without my student loans in my financial aid package, I would not have been able to finish my education at Syracuse University. When I started out at Syracuse University, tuition was $5,550. By the time I finished this May, it cost $11,500 for a full year of going to school at Syracuse University. My total nonloan financial aid package, including the veterans benefits that I received, State and Federal grants, never exceeded $5,000 in 1 year. Clearly, without the student loans, I never would have been able to continue through school and pay my tuition, much less supported myself.

In addition to that, there's a catch-22 in all of this. The Pell grants and other programs that are available, are only available, if you make a very low-level income. So when I went out in the summer and tried to get myself a job, which I did, utilizing a skill I learned in the Air Force, welding, working as a security guard, switchboard operator, and raising money for my university through fund raising programs they had, I earned more money than would allow me to be eligible for the Pell grants or the other programs. So I put myself right out of where I needed to be to be able to earn the money to be able to support myself and pay my own tuition. So, without these loan programs, I never would have been able to continue and go to school. In short, the loan programs allowed me to attend the kind of university that had the academic and experience opportunities that I felt I needed in my education experience.

But all that is essentially history now. I have graduated with a degree in policy studies from the Maxwell School of Citizenship, a nationally recognized program in public affairs, from Syracuse University. I wanted to go into policy studies because I felt that policy studies and policy decisions are areas that affect all of our lives.

My courses, my academic training, my extracurricular activities all have helped me to prepare for a career in public service. My strongest career preference is to work in some sort of a nonprofit, community service organization. I believe that I can really make a significant contribution to such an organization, as well as to our society in general.

However, the starting salaries in Syracuse for such types of jobs range between $8,000 and $10,000 gross annually. Having looked around for different jobs in the area, I have been forced to conclude that I can't really afford, at this point in my career, especially at an entry level, to go into the career which I have been studying for.

Right now, I have a total indebtedness of approximately $16,500 with loans. I needed the maximum guaranteed student loans for all 4 years. I also needed NDSL totaling $3,000. Finally, I borrowed $2,000 directly from Syracuse University to help meet my educational costs. I am not eligible for parent loans for undergraduate students—my parents died before I graduated from high school, before I went in the Air Force, and before I went through college. I have had to take a job that offers the highest pay, regardless of my career aspirations, so that I can meet my financial obligations and pay off my financial loans without defaulting.

In itself, this isn't all that tragic. I am, however, gravely concerned because while I was student government president, many students—and not only from Syracuse University but from other universities across the State of New York—would approach me with all sorts of problems. One thing that I can say for sure and kept coming back was that I am not the only student who is sitting in the debt burden boat.

A past editor from the university's student newspaper, who is a friend of mine, like me has a large debt from financial loans for student tuition. His is about $14,000. As a first-year reporter, he has a starting salary of a little more than $8,000 a year. He graduated 1 year ahead of me and recently warned me first hand that he found that it would be very hard, if not impossible, for me to pay back my loan payments if I worked for a similar salary in a public service occupation. I have regularly met students who honestly believe that they would have to default on their student loans because their starting salaries might be just enough to cover living expenses. That $100-plus a month—in my case it happens to be $145 a month—that a needy student has to pay when they graduate is often just enough to break our budgets.

So again, we are caught in a catch-22 situation. On the one hand, it is we who are the neediest that rely heaviest on maximum grants and loan aid. Smaller loan limits without a corresponding increase in grants would force people like myself to leave college. On the other hand, as has been pointed out several times today, if loan limits are increased, it will be the neediest students that will utilize the greater borrowing power and then be in a situation afterward where it is difficult to pay. I have already had to ask myself if it was right to spend 4 years studying in public policy/public service that I now can't afford as a career aspiration.

I know that I will be able to meet my loan payments on time. I know that I won't default on my loans—and that's very important to me. It was the way I was raised and it is the way I have worked through school and my life. But the reason I know this is because I have taken the best paying job that I have been able to find. In my current occupation I can expect, if I work hard this year, to earn about $17,000 in the next 12 months. You see, I am employed by the Circle Taxi Co. I drive a taxicab.

Several of the recommendations for reauthorization of the Higher Education Act strike very close to home with me. They would have made a very big difference in my decision about my first after-college job had they already been in effect.

First would be the relief offered to heavy borrowers if the repayment schedule were stretched out. As I have said, I will be making my loan payments on time, and that's important to me. I want to be a responsible borrower, and so I have turned down job prospects that I could not realistically afford. With smaller monthly payments, however, stretched out over a 15- or 20-year period, I would still be just as determined to pay back my loans and I would be able to do it without making other consumer sacrifices. If a reorientation of the balance between grants and loans were in place, I would not have had to borrow as much money as I did, and my monthly payments would not be so formidable. I could have taken an $8,000-a-year job working in public service and put my degree to use right away and gain the experience I need for career advancement, and possibly more productively serve my community.

Also, I have to face separate loans from NDSL and GSL. I can't say that I'm particularly looking forward to separate billings and paying separate checks for the same education. It costs me more on a monthly basis and I don't know if I will be able to consolidate them into a more convenient monthly schedule. Provisions for loan consolidation would make things much more convenient and a difference for me.

Finally, I would be concerned if someone felt that the answer to student loan problems is simply to increase the limits on borrowing. Without stretched out payments and provisions for loan consolidation, increasing the limits on the amount of available loans only encourages a borrow-now-and-suffer-later syndrome.

I had no way of knowing in advance what my total debt would be in my last year of college. My borrowing remained constant at the maximum level during my 4 years, while the financial aid decreased in both real numbers and in terms of inflation over those 4 years. I am now sitting in a debt-burdened boat and I have got a lot of company. If national policy is changed to increase individual loan indebtedness, how many more student borrowers will end up jointing the crew? And how many more can fit in before we all start to sink? Increasing limits on borrowing as part of a package that makes our monthly obligations more affordable would be an excellent thing. Increasing loan limits by itself is no answer. If anything, it is part of the problem.

Thank you.

[The prepared statement of Denise Crafts follows:]

PREPARED STATEMENT OF DENISE CRAFTS

Mr. Chairman and Honorable Members of the Subcommittee, my name of Denise Crafts. I would like to thank you for the opportunity to speak with you this morning.

I am a graduating senior at Syracuse University. I am also a veteran of four years in the United States Air Force, and as an independent student I have financed my own education through part time jobs, the New York State Student Incentive Program (the Tuition Assistance Program, TAP), full summer jobs, Pell Grants, Supplemental Educational Opportunity Grants, and federally subsidized student loans. In addition to earning my tuition, I supported myself, was the President Student Government and an involved citizen of the City of Syracuse, New York.

The subject I wish to discuss with you this morning is student loans. Student loans have become an important part of a student's financial aid package that so often determines whether or not someone can attend the college of their choice. Financial aid grant programs (Pell Grants and Supplemental Educational Opportunity Grants) which were originally designed to assist lower income students simply are no longer adequate to meet financial need by themselves. Maybe when loan programs started they were intended to assist middle income students who would not qualify for grants, but today students from low income families depend on subsidized loans as an intergral part of their financial aid package.

I am a case in point. Without student loans in my financial aid package I would never have been able to finish my four year undergraduate program at Syracuse University. When I started at SU the tuition was $5,550 and it is now $7,140 per year. Total cost of attendance when I began was $9,160. It's now $11,496 a year. My total non-loan financial aid package, including veteran benefits, State and Federal grants, never exceeded $5,000 in a year. Clearly, without student loans I would not have been able to provide the tuition to attend Syracuse University, much less, supported myself while in school. In short, loan programs allowed me to attend the independent university which provided the academic and experience opportunities that I felt I needed in my college education.

That is history. I graduated this year with my degree in Policy Studies from the Maxwell School of Citizenship—a nationally recognized and excellent program of higher learning. I wanted to learn policy studies because I feel that public policy decisions affect all of our lives. My courses, my academic training and my extracurricular activities all have helped me to become prepared for a career of public service. My strongest career preference is to work for a non-profit, community service organization. I believe that I could be a significant contributor to such an organization.

Starting annual salaries in the Syracuse area for such jobs are routinely $8,000 to $10,000. Having completed a preliminary job search, I've been forced to conclude that I cannot afford the career for which I've been studying.

Right now, I have about $16,500 in loan indebtedness. I needed maximum Guaranteed Student Loans for four years. I also needed National Direct Student Loans totalling $3,000. Finally, I had to borrow $2,000 directly from Syracuse University itself to meet the costs of my education. I am not eligible for Parental Loans for Undergraduate Students—PLUS Loans—because my parents died before I graduated from high school, before I entered the Air Force, and before I started college. I have had to take the job that offers the highest pay, regardless of my career aspirations, so that I can meet my financial obligations and pay off my debt without defaulting.

In itself, this is far from tragic. I am gravely concerned, however, because while I was student government president many students would approach me with all sorts of problems. One thing that I can say for sure is that there are a lot of students sitting with me in the debt-burden boat.

A past editor of our school newspaper, a friend of mine, has a debt of about $14,000—and as a first year reporter has a starting salary of a little more than $8,000 a year. He graduated a year ahead of me and warned me first hand that I would find it hard—if not impossible—to make my loan payments if I work for a similar salary in a public service occupation. I regularly meet students that honestly believe they'll default on their loans because their starting salary may be just enough to cover their living expenses. That $100-plus a month that needy students have to pay when we graduate is often just enough to bust our budgets.

So we're caught in a catch-22 situation. On the one hand, it's we who are the neediest that rely heavily on maximum loan aid. Smaller loan limits without a corresponding increase in grant aid would force people like me to leave college. On the other hand, if loan limits are increased, it will be the neediest students that utilize the greater borrowing power. I've already had to ask myself if it was right to spend four years studying in public policy/service that I now can't afford as a career aspiration.

I know that I'll be able to make my loan payments on time. I know that I won't default on my loans—and that's very important to me. I've taken the best paying job I could find. In my current occupation I'll earn about $17,000 in the next twelve months. I'm employed by the Circle Taxi Company, I drive a cab.

Several of the recommendations for reauthorization of the Higher Education Act strike close to home with me; they would have made a big difference in my decision about my first after-college job if they were already in effect. First would be the relief offered to heavy borrowers if the repayment period was "stretched out." As I said, making my loan payments on time is important to me. I wanted to be a responsible borrower, so I turned down job prospects that I couldn't realistically afford. With a smaller monthly payment stretched out over a fifteen or twenty year period, I'll still be just as determined to pay back my loans. If a reorientation of the balance between grants and loans were in place, I would not have had to borrow as much as I did. If my monthly payments weren't so formidable I could have taken that $8,000 a year job in public service and put my degree to use right away.

Also, I have to face separate NDSL and GSL payments. I can't say that I look forward to paying separate checks for separate loans from the same education. It costs more on a monthly basis, and I don't know if I'll be able to consolidate my loans into one monthly obligation. Provisions for loan consolidation would have also made a difference for me.

Finally, I would be concerned if someone felt that the 'answer' to student loans problems is to simply increase the limits on borrowing. Without stretched out payments and provisions for loan consolidation, increasing the limits on the amount of available loans encourages a borrow now, suffer later syndrome. I had no way of knowing how much I would be in debt until my last year in college. My borrowing increased while my federal grant aid remained pretty constant over four years. Now I'm sitting in te debt-burden boat, and I've got a lot of company. If national policy is changed to increase individual loan indebtedness, how many more student borrowers will end up joining the crew—and how many more can fit before we all start to sink? Increasing limits on borrowing as part of a package that makes our monthly obligations affordable would be a good thing; increasing loan limits by itself is no answer. If anything, it is a part of the problem. Thank you.

Mr. FORD. Thank you.

We will have to stand in recess for a few minutes while we answer this vote on the floor. We will be back as quickly as possible.

[Whereupon, the subcommittee was in recess.]

Mr. FORD. Dean King, you're next.

Dr. KING. Mr. Chairman, my name is Dr. Charles King. I am dean of the University of Detroit School of Dentistry. I appear today on behalf of the American Association of Dental Schools, which represents all 60 of the nation's dental schools. This morning I would like to highlight our major concerns about the reauthorization of the Higher Education Act.

Mr. Chairman, four of our recommendations override all other concerns with regard to to this reauthorization. First, we urge you to raise the guaranteed student loan borrowing limit to $8,000 a year for graduate and professional students. Second, change the combined undergraduate and graduate maximum loan amount to $40,000. Third, do not impose a subcap on graduate borrowing, and fourth, restore loan consolidation and extended repayment period provisions for highly indebted student borrowers.

guaranteed student loan borrowing limits were raised to $5,000 in 1976. Since that time, the cost of education and the indebtedness of professional students has increased dramatically. In 1978, the average tuition for dental students nationwide was $3,200. By 1984, this figure had more than doubled to $6,700.

Three factors have forced the cost of education upward. First, as this chart shows, the loss of Federal capitation support has had a dramatic impact on average tuition and fee adjustments. What I am showing here on this chart is the loss of Federal capitation moneys as versus the raise in tuition.

Mr. FORD. That chart is included in your testimony at the very end?

Dr. KING. Yes, sir; the chart is included there.

You can see by the chart that in 1978 the average dental school received nearly $400,000 in Federal capitation support. This was a program to increase the numbers of students and to increase the quality of teaching. Yet, by 1983, no dental school received any Federal capitation support. Schools were forced to increase tuition to replace some of their lost capital.

Second, dental schools significantly decreased enrollment in order to adjust for a projected oversupply of dentists. Since 1978, first year enrollment has declined by 1,300 places, or about 20 percent. This decrease means that 20 percent of the tuition revenue base was lost to schools. Currently, the Department of Health and Human Services estimates that by 1990 the supply of dentists will be in approximate balance with demand for their services. These projections demonstrate that dentistry is the first health profession to adjust enrollment to assure that its graduates will be available to meet public need but not exist in oversupply.

Third, the high inflation of the early 1980's increased the tuition charges that dental schools were forced to assess and magnified nontuition costs. By 1984, in addition to tuition, the average first year student paid more than $3,600 for instruments, text books, materials and mandatory fees.

In light of the loss of Federal institutional support, enrollment decreases, and the impact of inflation I believe is a tribute to dental school administration that their tuition increases were not even greater.

Mr. Chairman, because of the debt profile of today's health professions graduate, raising the GSL borrowing limits for graduate and professional students is our top priority in reauthorization of the Higher Education Act. We recommend that the borrowing limit be raised to $8,000 per year for graduate and professional students.

In 1978, the average dental senior owed $12,000, all of this in the form of subsidized loans. In 1984, the average dental school graduate owed $35,000, $10,000 of which was for high interest/market rate loans. As these data suggest, borrowing limits for low interest loans are insufficient. Dental and other health professions students have been forced to rely heavily on market rate loans to complete their education.

The unsubsidized health education assistance loan, the HEAL Program, designed to be a loan of last resort, has unfortunately become a standard element in many student budgets.

The problem of increasing reliance on market rate loans is even more acute in the private dental schools. In my own school in Detroit, for example, 34 percent of our students borrowed an average of $7,563 in HEAL loans in 1983-84. This year, 41 percent of our students averaged HEAL loans of $8,329. If this trend continues, an increasing percentage of our students will graduate with over $50,000 in educational debt, $30,000 of it in market rate loans. The problem has national implications because last year 45 percent of all dental school graduates were from private dental schools.

Failure to increase the GSL borrowing maximum will exacerbate the trend demonstrated by our data. Access to a professional education will be further impaired for those from low-income and middle-income families. The result will be a less heterogeneous mix of health care providers, a result we believe would be most unfortunate for the United States.

My school is located in a city with over a 65-percent minority population. Minorities are expected to comprise over 30 percent of the total U.S. population by the year 2000. Yet, the extent of borrowing required for lower income minorities makes it difficult to attract even a 5-percent black presence in our student body. One of our black graduates this year, who is married, with two children, with parents on public assistance, has borrowed $64,440 to finance his education, with $42,000 of this in market rate loans.

The American Association of Dental Schools does not support the $25,000 subcap for graduate students. But I would like to clarify that the American Council on Education no longer recommends such a subcap. We support retaining a subcap for undergraduate borrowing, increasing the yearly GSL maximum to $8,000 fo. graduate and professional students, and establishing a cumulative maximum of $40,000 for graduate and undergraduate borrowing. By not imposing a subcap of $25,000 for graduate and professional students, those who anticipate graduate or professional training, and who can avoid borrowing the maximum as undergraduates, will be able to do so without jeopardizing their access to aggregate borrowing limits.

Mr. Chairman, we are extremely concerned that borrowers' need for loan consolidation and extended repayment periods be met. The American Association of Dental Schools and its dental school members have been very committed to improving the collection of student loans. Over the past 4 years, we have learned much about default and delinquency by dental student borrowers. We know that a major reason for student default is not unwillingness but inability to meet the repayment terms due on these loans during the initial years of practice. Graduated and extended repayment options are essential if a young professional is to meet his or her loan obligations.

We support a loan consolidation plan which would charge students the average weighted interest rate of the loans consolidated, and we urge the committee to afford students the option to consolidate their HEAL and health professions student loans, the HPSL, which are administered by the Department of Health and Human Services. Consolidation of all Federal loans would enable the borrower and consolidating entity to construct repayment terms which would allow the average student borrower to meet his obligation to the Federal Government.

Concerning grants, our association strongly endorses the authorization of a new program to provide grants to first and second year graduate and professional students. However, we believe that the creation of such a program should not occur until guaranteed student loan borrowing limits are raised, as many more needy students can be assisted by a loan program than by the more costly grant alternative.

Mr. Chairman, on behalf of the American Association of Dental Schools, I want to thank you for allowing me the opportunity to present our views on reauthorization of the Higher Education Act.

Let me take this opportunity to thank you for your concern for these programs and the students they assist.

At this time I would be pleased to answer any questions that you or members of the subcommittee may have.

[The prepaired statement of Dr. Charles King follows:]

Prepared Statement of the American Association of Dental Schools

Mr. Chairman and members of the subcommittee, my name is Dr. Charles King. I am dean of the University of Detroit School of Dentistry and appear today on behalf of the American Dental Schools, which represents all 60 of the nation's dental schools and is the only national organization concerned exclusively with the needs of dental and dental auxiliary education. This morning I would like to highlight our major concerns about the reauthorization of the Higher Education Act and, with the permission of the subcommittee, to submit a more detailed statement for the record.

Mr. Chairman, four of our recommendations override all other concerns with regard to this reauthorization. First, we urge you to raise the Guaranteed Student Loan borrowing limit to $8,000 a year for graduate and professional students.

Second, change the combined undergraduate and graduate maximum loan amount to $40,000. Third, do not impose a subcap on graduate borrowing. Fourth, restore loan consolidation and extended repayment period provisions for highly indebted student borrowers.

COST OF EDUCATION AND DENTAL STUDENT INDEBTEDNESS

Guaranteed Student Loan borrowing limits were raised to $5,000 in 1976. Since that time, the cost of education and the indebtedness of professional students has increased dramatically. In 1978, the average tuition for dental students nationwide was $3,200. By 1984, this figure had more than doubled to $6,700.

Three factors have forced the cost of education upward. First, as the chart shows, the loss of Federal capitation support has had a dramatic impact on average tuition and fee assessments. In 1978, the average dental school received nearly $400,000 in Federal capitation support; yet, by 1983 no dental school received any Federal capitation support. Schools were forced to increase tuition to replace some of their lost captital.

Second, dental schools significantly decreased enrollment in order to adjust for a projected oversupply of dentists. Since 1978, first year enrollment has declined by 1,300 places, or about 20 percent. This decrease means that 20 percent of the tuition revenue base was lost to schools. Currently, the Department of Health and Human Services estimates that by 1990, the supply of dentists will be in approximate balance with demand for their services. These projections demonstrate that dentistry is the first health profession to adjust enrollment to assure that its graduates will be available to meet public need but not exist in oversupply.

Third, the high inflation of the early 1980s increased the tuition charges that dental schools were forced to assess and magnified non-tuition costs. By 1984, in addition to tuition, the average first year student paid more than $3,600 for instruments, text books, materials and mandatory fees.

In light of the loss of Federal institutional support, enrollment decreases, and the impact of inflation, I believe it is a tribute to dental school administration that their tuition increases were not even greater.

HIGH INTEREST LOANS

In 1978, the Health Education Assistance Loan (HEAL) program was created to serve as a loan to last resort for health professions students who had exhausted other loan eligibility. This unsubsidized, market-rate loan has, unfortunately, become a standard element in many health professions student budgets.

The inclusion of high interest loans in the student borrower's loan portfolio has a profound effect on student indebtedness. One way to see the impact of this change is to look at the amount graduates are expected to repay each month for their Federal loans, given the maximum repayment period allowed. In 1978, the average dental school graduate repaid approximately $100 per month for his student loans. In 1985, however, the average dental graduate can expect to repay $250 per month if he attended a public school or $450 per month if she graduated from a private school. These figures translate to approximately 12 percent per month of the public school graduate's disposable income and more than 20 percent of the private dental school graduate's after-tax income.

GSL BORROWING LIMITS

Mr. Chairman, because of the debt profile of today's health professions graduate, we believe raising the GSL borrowing limits should be the top priority in reauthorization of the Higher Education Act. We recommend that the borrowing limit be raised to $8,000 per year for graduate and professional students.

In 1978, the average dental senior owed $12,000—all of this in the form of subsidized loans. In 1984, the average dental school graduate owed $35,000, $10,000 of which was for high interest/market rate loans. As these data suggest, borrowing limits for low interest loans are insufficient; dental and other health professions students have been forced to rely heavily on market rate loans to complete their education.

The problem of increasing reliance on market rate loans is even more acute in the private dental schools. In my own school, for example, 34 percent of our students borrowed an average of $7,568 in HEAL loans in 1983–84. This year, 41 percent of our students averaged HEAL loans of $8,329. If this trend continues, an increasing percentage of our students will graduate with over $50,000 in educational debt, $30,000 of it in market rate loans. The problem has national implications because last year 45 percent of all dental school graduates were from private dental schools.

Failure to increase the GSL borrowing maximum will exacerbate the trend demonstrated by our data. Access to a professional education will be further impaired for those from low income and middle income families. The result will be a less heterogeneous mix of health care providers—a result we believe would be most unfortunate for the United States.

My school is located in a city with over a 65 percent minority population. Minorities are expected to comprise over 30 percent of the total U.S. population by the year 2000. Yet, the extent of borrowing required for lower income minorities makes it difficult to attract even a 5 percent Black presence in our student body. One of our Black graduates this year who is married, with two children, and parents on public assistance, has borrowed $64,440 to finance his education, $42,000 of this in market rate loans.

We ask the committee to note that investment in the education of a health care professional is quite small in comparison to the direct Federal outlay for Medicare and Medicaid services alone, and pales in comparison to the total health care bill for the U.S. population.

BORROWING LIMITS AND SUBCAPS

AADS does not support a $25,000 subcap for graduate students. I'd like to clarify that the American Council on Education no longer recommends such a subcap. We support retaining a subcap for undergraduate borrowing, increasing the yearly GSL maximum to $8,000 for graduate and professional students, and establishing a cumulative maximum of $40,000 for graduate and undergraduate borrowing. By not imposing a subcap of $25,000 for graduate and professional students, those who anticipate graduate or professional training, and who can avoid borrowing the maximum as undergraduates, will be able to do so without jeopardizing their access to aggregate borrowing limits. Thus, a predental student could be encouraged to borrow less as an undergraduate in order to have up to $8,000 available each year of that student's dental education.

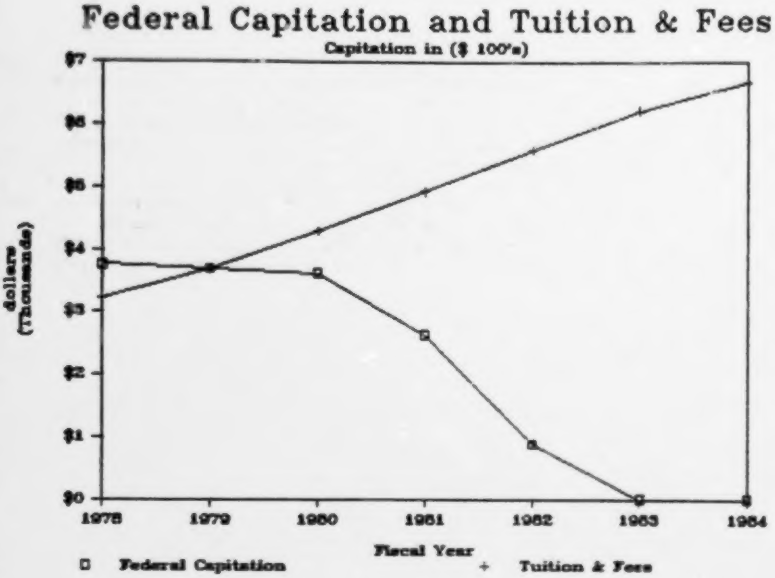
LOAN CONSOLIDATION/EXTENDED REPAYMENT

Mr. Chairman, we are extremely concerned that borrowers' need for loan consolidation and extended repayment periods be met. The American Association of Dental Schools and its dental school members have been very committed to improving the collection of student loans. Over the past four years, we have learned much about default and delinquency by dental student borrowers. We know that a major reason for student default is not unwillingness but inability to meet the repayment terms due on these loans during the initial years of practice. Graduated and extended repayment options are essential if a young professional is to meet his or her loan obligations. We support a loan consolidation plan which would charge students the average weighted interest rate of the loans consolidated, and we urge the committee to afford students the option to consolidate their Health Education Assistance Loan (HEAL) and Health Professions Student Loans (HPSL), which are administered by the Department of Health and Human Services. We realize the HEAL program poses administrative difficulties because it carries a fluctuating interest rate, but we believe that those who are granted consolidation responsibility have the sophistication to accommodate this variance. Consolidation of all Federal loans would enable the borrower and consolidating entity to construct repayment terms which would allow the average student borrower to meet his obligation to the Federal government.

GRANTS

Our Association strongly endorses the authorization of a new program to provide grants to first and second year graduate and professional students. However, we believe that the creation of such a program should not occur until Guaranteed Student Loan borrowing limits are raised, as many more needy students can be assisted by a loan program than by the more costly grant alternative.

Mr. Chairman, on behalf of the American Association of Dental Schools, I want to thank you for allowing me the opportunity to present our views on reauthorization of the Higher Education Act. Let me take this opportunity to thank you for your concern for these programs and the students they assist. At this time, I would be pleased to answer any questions that you or members of the subcommittee may have.


Federal Capitation and Tuition & Fees
Capitation in ($ 100's)
$7
$6
$5
$4
$3
$2
$1
$0
dollars
(Thousands)
1978
1979
1980
1981
1982
1983
1984
Fiscal Year
□ Federal Capitation
+ Tuition & Fees

Mr. FORD. Thank you.

Mr. Ashworth.

Dr. ASHWORTH. Thank you, Mr. Chairman.

I am Kenneth Ashworth, commissioner of higher education in Texas. I am representing the State Higher Education Executive Officers Association. I would have to have some kind of outsized ego if I thought at this point on the program I could contribute a whole lot of new thoughts, but I would like to emphasize several points on behalf of our organization.

Our principal concerns on the topic that you're considering today are, number one, overburdening students with debt; second, the channeling of students out of the socially vital fields due to their heavy indebtedness; and third, increasing the default rates of loan borrowrs.

On the overloading of students with debt, we see such debt as primarily being imposed on the lower income students. A point was made by one of the members of the committee this morning that this will discourage students from attending college at all for many of these lower income groups. It could easily be seen as a negative dowery for women and as an unattractive option and financial burden for any couple getting married after college when you consider that their combined debts could run $30,000–$50,000 or even up to double that. The point has been made that this kind of indebtedness is undoubtedly going to have an impact on the consumer options exercised by the graduating students once they enter the job market with these kinds of debts upon them.

The second point we want to make an observation on is that we see the overloading of debt as having a heavy influence on career decisions by students, particularly when two debtors marry each other. Socially essential fields like scholarly research, government careers, as attested to by Denise, university faculty positions and public school teaching, just to mention a few, are being rejected as debt-encumbered students choose more lucrative but less socially vital careers. I think all of us know of vignettes of situations where couples have married, school teachers, and they have decided that they simply cannot continue because of the debt they have. One of them drops out to begin a family and the other one remaining to pay off the two debts cannot carry it and moves out of the teaching field. The economics of getting a college education is influencing our social structure and how we place values on different fields of work.

Last, as we overburden our students with debts that they cannot pay without severely reducing their standard of living for five to ten years, or even longer, as has been proposed before this committee, we're going to force more of these overburdened students into default status. Mr. Chairman, you have already covered one point that we need to make in this regard, and that is, in 1970, nearly 15 years ago, one-fifth of the total financial aid package was for loans. By 1980, 5 years later, it was 40 percent of the total package. And the latest study by the college board shows that 50 percent of the financial aid packages on the average are made up of loans.

The higher default rates, besides the damage they will do to individuals who go into default, will endanger the entire Federal student aid program. We think this is something we need to keep in mind. Frankly, many of us feel that a better choice would be to strengthen the student work programs even to the extent of allowing States to use the SSIG money that we get to match State work-study programs.

Another choice, better than loading more debt on to students, is to encourage students to take longer, as many students used to do, to cover some of their costs while they're going to college. In fairness, we believe that grant programs need to be continued in order to keep the poor in our society from being the major, most heavily indebted students.

The Congress made a good choice when it decided to fund higher education by using the students as a conduit for aid that would reach those universities. I believe to keep that good choice healthy we need to be careful about increasing student indebtedness beyond the present level.

Thank you, Mr. Chairman.

[The prepared statement of Kenneth Ashworth follows:]

PREPARED STATEMENT OF DR. KENNETH H. ASHWORTH, COMMISSIONER, COORDINATING BOARD, TEXAS COLLEGE AND UNIVERSITY SYSTEM, ON BEHALF OF THE STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCATION

Mr. Chairman, my name is Kenneth Ashworth. I am Commissioner of the Coordinating Board of the Texas College and University System, and I am appearing before you today as President-elect of the State Higher Education Executive Officers Association. The members of SHEEO are the chief executives of the boards, agencies and commissions responsible for statewide governance and coordination of higher education in 49 states, the District of Columbia, Puerto Rico and the Virgin Islands. Our members are primarily responsible for ensuring that the citizens of their states have availalbe to them effective and efficient higher education services, both public and independent, that standards of quality are maintained and that the needs of the state are duly served.

Our members are particularly concerned that the public funds that are available for higher education—be they federal or State in derivation—are used in the most efficient manner, and we are similarly concerned that the appropriate balance be struck, and maintained, between the respective roles of the federal government and the States. As creatures of our legislatures and our governors, our boards, agencies and commissions are charged with the increasingly conflict-ridden task of securing the most equitable allocation of public funds and of advocating the needs of the institutions we oversee, as well as the needs of those who do or should make use of the services of those institutions. Increasingly, we are being called upon to stimulate institutional capacity-building that serves the economic development interests of our states, as well as to develop programs that support the training and retraining of our workforces.

We are by necessity particularly sensitive to federal policies which, by design or otherwise impact upon the ability of our states and our agencies to carry out our primary obligations. I am therefore personally grateful, and I express the appreciation of every SHEEO member, for this opportunity to share with this Subcommittee some of our concerns and priorities regarding the very serious and complex issue of debt burden and the federal student aid loan programs.

There can be no question that the primary federal interest in higher education must continue to be to assure access for those who have the ability but not the means to benefit from a collegiate experience. This was the fundamental goal of the seminal legislation twenty years ago, and it should continue to be so in the eighties and beyond. The Congress then opted—prudently, we hasten to add—to concentrate federal support on the needs of the student, leaving institutional support primarily the responsibility of the States.

To achieve this end, the Guaranteed Student Loan Program must continue to be configured to ensure access to affordable loan capital for those students whose own resources are either inadequate or whose finances would be unduly stressed by shouldering the entirety of the costs of their postsecondary education. Together with the Pell Grant program, Guaranteed Student Loans provide a foundation that has served this nation well in preserving access, choice and pluralism in American higher education.

As state officials who are concerned with what happens to students when they complete their higher education, we are concerned, however, that over the years there has been a steady shift of emphasis away from grants, work and self-help towards the incurring of debt to finance one's higher education. In the mid-70s, loans comprised only about a fifth of the average aid package, and as recently as 1980 that proportion was barely 40 percent. Now, according to the College Board's most recent analysis, Trends in Student Aid, loans account for half the average aid package. Even more ominous, a new study performed for the California Postsecondary Education commission finds considerably higher debt burdens among presently enrolled students than among recent graduates. We are concerned that the present system is creating a nation of college graduates whose burden of debt is having—and will increasingly have—a deleterious effect not only upon the individual graduates but upon their communities, their States and upon the nation at large.

We often assume that the primary negative consequence of an over-reliance on loans is a rise in the default rate. Certainly there is a correlation between excessive debt burden and inability to repay. But we submit that the harm of excessive debt imposed on our college graduates is considerably more insidious. The negative effects are several, and they are potentially grave.

First, we are finding that students are increasingly making career choices based on their future ability to generate enough income to service their debt obligations. This is particularly exacerbated in the case where two graduates, both of whom have substantial indebtedness, marry. A young couple starting off with $20,000 or $30,000 of debt is indeed in a very difficult position, and the choices that couple will make as to career paths will in no small measure be driven by a need to generate significant income early on to shoulder that burden.

We see the effect of this most clearly in the unwillingness of young people to enter socially vital but economically less rewarding careers, such as education. Instead, the looming debt burden is making the economic value of a career more important than its social utility. It is difficult for a student to justify lengthy graduate study to qualify for a career as a professor of history when that training will result in a $30,000 debt burden. We cannot afford to have our own student aid policies skew the entry of talented young people away from critical fields.

There is yet another social cost of excessive debt burden which, while not affecting general career decisions, may in the long run have equally adverse effects. I cite the case of the young physician who graduates from medical school with $50,000 or more in debt. From conversations I have had, that person's sense of social responsibility tends to be to make enough money to pay off his or her loans—not to go into general practice in a poor neighborhood or rural community where the likelihood of a six-figure income is remote. That young doctor is being compelled by the balance we have struck between loans and other forms of aid to seek the most remunerative form of practice. He or she *is* being socially responsible, but that responsibility evidences itself in trying to pay off the crushing debt burden—not in a choice of practice that might best serve the community.

We are also beginning to see indications of an adverse economic effect of excessive debt burden upon the communities in which our graduates settle. Substantial debt burdens seem likely to be a disincentive towards consumer expenditures, with households deferring major purchases, acquisition of a permanent abode, and even the starting of a family. There are many reasons for all of these actions, but a student aid policy that forces graduates to bear an excessive burden of debt should not be one of them.

Finally, by placing so much emphasis on loans, we are encouraging today's students to rely on going into debt rather than securing immediate resources. Loan capital is vitally needed by many students and families, but it ought not become a crutch that is resorted to without regard for the consequences. We should be encouraging alternatives to debt, rather than facilitating indebtedness.

Our members have examined these issues from their particular vantage point, and have concluded that the present system has created imbalances among direct governmental support, student and parental contributions, and debt burden. It is our view that the present erosion of direct aid in favor of an ever-increasing reliance on loans be halted, in favor of a renewed emphasis on need-based grants and subsidized work opportunities.

We have concluded that increasing loan limits would *not* represent a real improvement in the student aid programs. While we certainly recognize the direct correlation between rising student costs and the need to increase the availability of student assistance, we suggest that these increases be met through the full funding of the Pell Grant program, Work-Study and SEOG, and particularly through enhanced opportunities for subsidized student work. Attempting to close the growing gap between costs and available assistance through increasing the debt burden does not solve the problem, but simply delays its manifestations. Increasing loan limits will do no more than put off the inevitable day of reckoning, create economic hardship, slow down local economies, further skew the critical career selection process and decrease social commitment.

As one alternative, we urge serious consideration be given to increasing the flexibility afforded us in administering the State Student Incentive Grant program. We propose that the States be allowed to allocate a portion of these resources to the support of statewide work-learning programs. There are already a number of excellent examples of state-based student work programs that are not only affording the participants a chance to generate needed revenue but are also serving their intellectual needs *and* promoting the public welfare. SHEEO is working closely with the National Governors' Association and the Education Commission of the States in developing new approaches to work-learning, and we commend to the attention of this subcommittee the beneficial effects of encouraging such activities.

Indeed, I personally believe that if we are faced with a choice of increasing debt burden or encouraging students to stretch out their education to enable them to more readily pay their own way—perhaps with expanded subsidized work opportunities, and especially through internships, cooperative education and other forms of experiential learning—I would opt for the latter. We have reached a critical juncture in the financing of higher education, and we must return to the roots of the federal support formula, with sufficient direct support, work opportunities and self-help to avoid imposing a crushing burden of debt upon an entire generation.

On behalf of my fellow state higher education officers, I thank you for this opportunity to present our views.

Mr. **Ford**. Thank you.

What is your default rate in Texas on GSL's?

Dr. **Ashworth**. It's running about 4 percent, I believe. We have so many portfolios on some loans that were made before we got under the GSL Program that I don't know that answer expressly without checking it more thoroughly. I will get that information and submit it to the committee.

Mr. **Ford**. Well, Joe McCormack is in town. He must know. He's supposed to.

You see, what is set up on this panel is what appears on the surface to be a dichotomy, if not a dilemma, of the motivations on the one side, so well articulated by somebody who was there and knows what that burden is—Denise, I want to compliment you on your testimony, your very direct way of relating your own experience to the issues that we are concentrating on here. Of course, Marjorie Dickinson says that her study says we are already lending some people too much money. Then Dr. King comes back and says, "But there are some people who can't borrow enough money." You have heard the ACE people and others ahead of you say, "Well, some people ought to be able to borrow more and some people shouldn't be able to borrow more."

Now, the dilemma is how you meet the clear signs of danger of increasing loan limits and shifting the cost of education more and more to borrowed money, against the other side of denial of access and choice to people because it is not adequate to give them a true choice. That's one of the things we're going to have to wrestle with very long, I am sure, to find any kind of policy solution that makes very much sense for any length of time.

If, indeed, as has been suggested here, we could reduce the cost of the Guaranteed Student Loan Program and transfer that back into a fund that then translated directly into grants, I don't think anybody here would hesitate to do that. While theoretically that is possible, the fact is that any reduction that you achieve goes to the Treasury and you come up with a budget resolution that says our function for education is *x* dollars, and it is *x* dollars with or without the shift of the money, and then that's our hunting license to get money back out of the Treasury. Not to be too cynical, my own belief is that in the present atmosphere in Washington, the chance of getting more grant money in any way commensurate with the amount of savings we would make in guaranteed student loans is, as they say in your State, between slim and none. If that comes, not many of us are going to be willing to bet on it.

So we are kind of stuck with the fact that we've got the rising costs, the diminishing value of the grant money, very little opportunity to increase the grants, and how do you make it up. Do you throw up your hands and say let's start screening people out of the process, or do you try to muddle along and hope that some place down the road we will have the wisdom to separate out investment in education from expenditures of Federal funds.

We still treat the investment in education, for all purposes—the public does—the same as any other expenditure we make. And while I won't select out other things that we do with Government money that aren't as productive, if we were building dams with this money, we would have a much better cost-benefit ratio to demonstrate than they do for the billions of dollars' worth of water projects that we build around the country. All you have to prove to make them viable is a 1½ times return, 1½ times the Government's investment. It doesn't get returned to us but it gets returned to someone. Many of them don't produce that. They were expected to and don't.

All the studies indicate that, in spite of the experience that Denise is describing here, that, in fact, in increased tax collections we get a better than 1½ return on our investment in higher education. That lays aside all of the other practical reasons why we ought to be doing what we're doing, having to do with the strength of this country and its people.

So I think as a final panel today you have helped me at least to refocus on how very difficult it is going to be to balance these competing interests and prejudices, if you will, on a national program.

There isn't any question that we didn't start out to get where we are. I mentioned this morning in speaking to a group that when President Johnson sent up the Higher Education Act in 1965, there was a very short paragraph describing the Guaranteed Student Loan Program and said—I'm paraphrasing—"Now that we have done all these very nice things for the low-income students, we will have a little bit of money here to fill up the gap that is going to be left for the students a little bit higher in the income level." For a while we sailed along and only the middle-income students—middle income as measured in those days—were the principal participants. But as you have heard from the panels before you and what you have reinforced here today, this has shifted so that this has now become a poor people's program and that exacerbates the problem of adding the debt burden on these people. I think it tells you a little bit about what our problem is in trying to determine what is a legitimate debt burden. No one knows.

Dean, I know that your young dentists are experiencing serious troubles in the Detroit metropolitan area as a result of the cutbacks that have taken place in the auto industry. One of the victims of all the adjustments that have been made in health plans has been dental care and where working class people could expect to get reasonably good dental care and the dentists could expect to get a decent fee for it.

That coverage went. Part of it has gone permanently by the close to 40 percent of the people employed in that industry 5 years ago that aren't employed in the industry any longer. If they are now employed, it is in jobs that don't provide prepaid dental care as a part of their benefits. At the time that that was negotiated by the UAW, there were still people who thought that was a luxury that nobody could afford. In my area, it is now taken as a right that has been taken away from people, because they got used to it and came to expect that, unlike their own life, they could expect to give proper care to the development of their children's teeth for their own future.

We have seen a whole lot of change take place and we can see it ratchet on up. When I picture a young dentist now coming out of your school with $50,000 or $60,000 in debt, it's a little different than it was 5 years ago. When he didn't come out with that kind of debt, he had a better chance to pay it off in his first 5 years. Because unless he is fortunate enough to go into a well-established practice with somebody else, he has in the past generally been the fellow on the low end of the totem pole for the beginning.

How does a young dentist set up a practice out in the boondocks now? What does it cost to equip a dental office for one dentist in a small town?

Dr. King. In the neighborhood of $70,000.

Mr. Ford. So presumably the equipment companies will sell him that on credit. So now he's got $50,000 to 60,000 from school and another $70,000 from there, and he is supposed to charge decent fees for fixing teeth in small town America. It costs us a lot of money to save money, doesn't it?

Dr. King. Right. If he could have lower payments at the beginning, it would help a great deal.

Mr. Ford. Thank you very much, all of you.

Counsel has a question.

Ms. Dinapoli. Mr. Coleman left a question for Mr. Ashworth. Although it addresses an area that we are not discussing today, guarantee agencies, he would like Mr. Ashworth to briefly respond to a question in his role as president-elect of the State higher education executive officers and then provide the subcommittee with a more lengthy written response for the June 20 record when we discuss this area.

Within their current structure, do you feel that the guarantee agencies are acting in a prudent and responsible manner? In addition, to follow up on that, do you feel that the current taxpayer subsidies to these agencies are really reasonable?

Dr. Ashworth. I know this is a problem you have been grappling with and I appreciate the opportunity to comment on it briefly. In working for an agency that gets so much criticism, I guess I will venture here to direct some away from our agency to other parties.

I guess I'm concerned about the amassing of enormous reserves in some of these guarantee agencies when, in fact, the Federal Government is the ultimate guarantor. I have some concern about that. The reserves are coming from two sources. One is from the taxpayers in the sense of advances, the lenders allowance that they're getting from the State, and the other is from the premiums that they're charging to the students. They are doing this to build enormous reserves and, frankly, as quasi-public bodies, I have watched this with some concern and must express some concern about it. I just question whether they really are pursuing the public interest and not perhaps focusing very heavily on profit motivation.

What concerns me is that very few of them are charging less than the absolute maximum of law on premiums to students for their loans. Also, I think someone needs to look at how these funds and reserves are being used—cars, lavish operations, and constructing their own buildings.

As to the lending authorities—I believe the chairman of this committee had some influence on bringing some of this into line—but just 1 year ago we had one of our lending authorities sell $148 million in bonding authority, tax exempt, for a total demand of $10 million for the following year. I guess, as a SHEEO officer, I express my concern from the kinds of experiences and observations that I've had and the kinds of conversations that I have with some of my colleagues in other States.

I believe that's all I would want to say on it.

Ms. **Dinapoli**. Thank you.

Mr. **Ford**. I'm glad Tom asked you about that. We are going to be going into it a little more. But I don't think it's any secret that, if we're stuck with first year costs in this program, we're looking for a place to recoup some money, and those big, fat kitties you're talking about might be one of the places we can get some of it, thereby avoid cutting people out of the Loan Program.

The tax-free revenue bond situation was so bad that we did finally come up with what the State guarantee agencies refer to—through clenched teeth—as the Ford amendment. Maybe the Department moved too fast and too hard on them. But you gave one example.

In 1980 I was trying to figure a way to get a hold on this and we couldn't. We had one State that borrowed $50 million and made $3 million in loans. We sort of figured that they didn't need to borrow 50 years worth of loan money all at one time and found out it was all sitting in the State bank and being leveraged into other kinds of investments. That has been tightened up through the tax law and I gather by next year some time they're going to have to account much better for that because they're going to be in competition with everybody else in trying to get the tax-free revenue bonds.

It wasn't abused by very many States, but the ones that did abuse it just stuck out like sore thumbs because the abuse was egregious and was just intolerable. It wasn't what we wanted to do and it certainly wasn't consistent with policy. These are good, honest people who just felt that they were good businessmen doing what any good businessman would do.

Something happens to people when they start taking care of other people's money, and they can do all sorts of things and not feel a bit of conscience about the fact that it's maybe contrary to a broader social policy. Because, after all, your job is to leverage that money and maneuver it so that it produces the best return. I'm afraid that there is some tendency toward that. Tom has expressed his concern about it before and I'm sure we're going to be looking at it very closely.

I appreciate your candor in answering that question. There are some people in town right now who will be waiting to waylay you when you go back to your hotel tonight. [Laughter.]

Thank you very much. The committee is in recess.

[Whereupon, at 2:40 p.m., the subcommittee was adjourned.]

[Additional material submitted for inclusion in the record follows:]

American Council on Education,
Division of Governmental Relations,
Washington, DC, June 18, 1985.

Hon. William D. Ford,
Chairman, Subcommittee on Postsecondary Education, Committee of Postsecondary Education, Committee on Education and Labor, U.S House of Representatives, Washington, DC.

Dear Mr. Chairman: During my June 5 testimony on the Guaranteed Student Loan Program, Representative Gaydos asked me to submit information for the hearing record concerning the facts on GSL recipients with family incomes over $100,000, and Representative Hayes requested a breakdown of GSL and Federal aid recipients by family income and minority status.

The enclosed responses are submitted for inclusion in the hearing record as a part of my testimony.

Sincerely,

Charles B. Saunders, Jr.,
Vice President for Governmental Relations.

Enclosures.

FACT SHEET ON HIGH-INCOME GSL RECIPIENTS

Secretary of Education William Bennett has alleged that some 13,000 students from families exceeding $100,000 family income are receiving Guaranteed Student Loans.

The Secretary's charge was based on misinterpretation of inappropriate data. Analysis by the higher education community reveals only a few isolated instances of GSL recipients with family incomes over $100,000—each of them exceptional cases of families with several students in college and unusually high debts or medical expenses.

Secretary Bennett's erroneous estimate is based on student-reported estimates of parental income from a survey of first-time full-time freshmen conducted by UCLA.

ACE does not believe that this survey is an appropriate source of data on family income for aid recipients in the college population. Even for freshmen, the income data need careful interpretation. It must be understood that the survey only reflects the students' estimate of their family income. In addition, the questionnaire for that survey does not differentiate between federal guaranteed student loans and federally guaranteed parent loans. Thus, it is likely that almost all of the 13,000 reported by the Secretary are recipients of unsubsidized PLUS loans, not GSL loans.

More precise data are available from the Student Aid Recipient Data Bank developed by the higher education associations, which surveyed official records from institutional financial aid offices in both public and independent institutions, which are responsible for administering federal funds.

That data bank revealed only one case of a guaranteed student loan received by a student from a family with an income over $100,000, and that student's family was paying over $20,000 in higher education costs for two of their six children, and also paying off heavy medical debts.

Only one case from a national sample survey such as this is too small a number from which even to draw precise estimates of national data, but based on the weights given to other data in this survey, and based on anecdotal data received to date, we estimate that there could be no more than 1001 cases such as this in the country.

To qualify for a GSL at such a high income level, under the need analysis system, as regulated by the U.S. Department of Education, a family must consist of more than four family members and have several children enrolled in high-priced institutions, or have enormous amounts of debt.

DISTRIBUTION OF FEDERAL AID RECIPIENTS BY INCOME (EXCLUDING GSL)*

[In percent]

	Less than $10,000	$10,000 to $30,000	$30,001 to $60,000	Over $60,000
Minority	29.5	25.8	13.0	10.4
Non-Minority	70.5	74.2	87.0	89.6
Total	100.0	100.0	100.0	100.5

*Includes Pell, SEOG, CWS, and NDSL recipients.

DISTRIBUTION OF GSL RECIPIENTS BY INCOME

[In percent]

	Less than $10,000	$10,000 to $30,000	$30,001 to $60,000	Over $60,000
Minority	23	15.1	8.2	12
Non-Minority	77	84.9	91.8	88
Total	100	100.0	100.0	100

DISTRIBUTION OF FEDERAL AID RECIPIENTS BY MINORITY STATUS (EXCLUDING GSL)*

[In percent]

	Less than $10,000	$10,000 to $30,000	$30,001 to $60,000	Over $60,00
Minority	49.5	45.5	4.9	0.1
Non-Minority	41.8	46.3	11.5	0.3
Total	100.0	100.0	100.0	100.0

*Includes Pell, SEOG, CWS, and NDSL recipients.

Source: Original data provided from the 1983–84 NAICU and NASULGC/AASCU/AACJC Student Aid Recipient Data Bank.
Columns may not add to 100% due to rounding.

DISTRIBUTION OF GSL RECIPIENTS BY MINORITY STATUS

[In percent]

	Less than $10,000	$10,000 to $30,000	$30,000 to $60,000	Over $60,000
Minority	44.9	40.5	13.2	1.3
Non-Minority	28.0	42.6	27.6	1.8
Total	100.0	100.0	100.0	100.0

Source: Original data provided from the 1983–84 NAICU and NASULGC/AASCU/AACJC Student Aid Recipient Data Bank.

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—

TUESDAY, JUNE 11, 1985

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 340, Cannon House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Biaggi, Hayes, Bruce, Dymally, Penny, Atkins, Gunderson, McKernan, Henry, and Petri.

Staff present: Thomas R. Wolanin, staff director; Rose M. DiNapoli, minority legislative associate; Richard DiEugenio, minority senior legislative associate, and Kristin Gilbert, subcommittee clerk.

Mr. Ford. I am pleased to call to order this hearing of the Postsecondary Education Subcommittee of the U.S. House.

We wish to continue this morning our hearings begun last week on the Guaranteed Student Loan Program in anticipation of the reauthorization of the Higher Education Act.

We have scheduled a total of six hearings on guaranteed student loans and we have done that because it is perhaps the most complex program authorized under the Higher Education Act. It brings together student borrowers, educational institutions, and various elements of the lending community.

Our discussion today will focus on the issues of secondary markets for student loans, including both the Student Loan Marketing Associations and the State and regional secondary markets.

Before yielding to the other members of the subcommittee for any comments they wish to make, I want to make one other observation.

Because of the time constraints—we have scheduled 22 hearings here in Washington beyond the field hearings that are scheduled—we are just not able to accommodate everyone who would like to speak on every subject that we are going to be taking up. But that doesn't preclude everyone who wants to from participating.

We hope that those who are here today and are not on the panel who are inclined to do so will submit whatever testimony they wish to have included in the record contemporaneous with today's hearing. And if during today's hearing you hear something that provokes a thought, send it in and it will be included in the report of the committee. We don't want to overlook anyone's great idea about how to solve our problems and we would be very happy to listen to all the suggestions that we can get.

[The opening statement of Hon. Steve Gunderson follows:]

I am pleased to be here this morning to participate in the Postsecondary Education Subcommittee's ninth hearing on the reauthorization of the Higher Education Act. I commend the Subcommittee's Chairman, Mr. Ford, and its Ranking Minority Member, Mr. Coleman, for the leadership they have provided as we consider this important legislation.

Today we will continue our discussion of the Guaranteed Student Loan [GSL] Program. In particular we will focus on student loan secondary markets, looking closely at the issues of tax-exempt financing and non-discrimination within those authorities. We will also have the opportunity to carefully examine the largest and best known student loan secondary market, Sallie Mae, which during 1983 provided $7 billion in funds and commitments for student loans.

Secondary markets are a necessary component of the GSL program. Created especially to purchase loans, secondary markets have the ability to administer student loans using economies of scale which are typically not available to smaller lenders. When first issued, and while the student is in school or under deferment, the administrative costs associated with a GSL are very low, thus allowing high yield to the lender. However, when that loan enters repayment, administrative costs rise to the point that it is not economically feasible for most small lenders to continue administration of the loan. At this point, many lenders wish to sell their GSLs to secondary markets, using the proceeds from the sale of finance new GSLs.

Without secondary markets, many lenders would not be able to participate in the GSL program, or at best would be reluctant to do so. While we recognize the necessity of these markets, we still have many concerns with regard to several fundamental issues that must be addressed during the reauthorized process. We must clearly define the role of the State secondary market; we must determine the on-going need for secondary markets in the future; we must reexamine Sallie Mae's role within the GSL program, determining whether or not its charter should be amended or remain unchanged; we must look carefully at the issue of tax-exempt financing for GSLs; and we must determine the secondary markets' rights to deny a borrower's access to loans on the basis of attendance at a particular educational institution (the non-discrimination issue), pariticularly when that institution or the particular lender has an exceptionally high default rate.

With this in mind, I certainly look forward to hearing the testimony of today's witnesses. These are extremely complex issues that we consider this morning. I appreciate the insight that our witnesses can bring to us and I look forward to working with them are with other members of the Postsecondary Education Subcommittee as we strive to fortify our higher education programs, particularly the GSL program.

Mr. McKernan.

Mr. McKernan. Thank you, Mr. Chairman.

I want to say how important I think this hearing will be, especially the issue of tax—exempt financing and special allowances.

I would like to welcome a friend of mine from the State of Maine, Dick Pierce, the president of the Maine Educational Loan Marketing Corp., who will be on our first panel. He is a former Maine State Senator, and I think, Mr. Chairman, you will be able to tell that he has experience in the political process by the fact that he was kind enough to have only three-page statement.

No further comments.

Mr. Ford. Thank you.

The gentleman from Massachusetts.

Mr. Atkins. I would just like to second the comments of Mr. McKernan and welcome also Larry O'Toole, who is also in the first panel from the New England Educational Loan Marketing Corp., who has a slightly longer statement but I am sure will keep it brief.

Mr. Ford. Mr. Penny.

Mr. PENNY. I have no opening remarks. But we have an Agriculture Committee markup at 10 which will require me to leave about a quarter after if I am going to be there when it starts.

Mr. FORD. Well, we don't want anyone from Kentucky to appear here without being welcomed specially, so, Mr. Borden, will you lead the rest of the panel to the table, please?

Paul Borden, executive director of the Higher Education Assistance Authority of Kentucky; Richard Pierce, president of the Maine Educational Loan Marketing Corp., and Lawrence O'Toole, president, New England Educational Loan Marketing Corp.

Without objection, the prepared testimony of each of the witnesses will be inserted in the record at that point where you begin your comments.

So, you may proceed to add to it, to supplement it, amplify it, highlight it, comment on it in any way that you are most comfortable with.

STATEMENTS OF RICHARD PIERCE, PRESIDENT, MAINE EDUCATIONAL LOAN MARKETING CORP.; PAUL BORDEN, EXECUTIVE DIRECTOR, HIGH EDUCATION ASSISTANCE AUTHORITY OF KENTUCKY; AND LAWRENCE O'TOOLE, PRESIDENT, NEW ENGLAND EDUCATIONAL LOAN MARKETING CORP.

Mr. PIERCE. Thank you, Mr. Chairman, and members of the subcommittee.

My name is Dick Pierce and I am president of the Maine Educational Loan Marketing Corp. in Augusta, ME.

Needless to say, I am very pleased to have the opportunity to speak briefly before you here this morning.

I suppose it is always a little bit self-serving for us all to be here but I would like to think that there are also high callings why we make this trip, and there are two factors which maybe you could keep in mind throughout my testimony which I think are important to my State.

First of all, I believe we are now 50th in sending our kids on to higher education; and second, Maine uses the Student Loan Program the second highest in the Nation.

So, keeping those two factors in mind I think is important.

I would like to address two main points this morning, the first being: Are secondary markets, State secondary markets such as ours, inherently good?

And second, I would like to share with you some of the background of my organization and especially point out its uniqueness.

Beginning with my first point, I would say that State secondary markets are not inherently good but instead are potentially good. They are relatively new and probably have to be looked at carefully on a State-by-State basis to get their true value.

I can speak only for my State, but I suspect as Congress and the Department review these State entities it will be determined that the overwhelming number of them make significant contributions to their home States and their educational loan programs.

Maine undertook the establishment of a secondary market in 1983, primarily as a response to the many small lenders across our State who had no access to such a market.

Our organization was formed and designated by our Governor and the State board of education with approval of the legislature to perform educational loan secondary market services.

Requesting a $60 million bond issue with $40 million already subscribed we expected would be rather routine. However, that was not to be as we were eventually turned down by the U.S. Department of Education.

I think somewhat unfortunately, our application was the first received by the Department following the somewhat subjective interpretations they made as a result of the Ford amendment.

However, I am not here to cry on your shoulder about that because I realize that life isn't always a level playing field.

Forced to seek alternative financing, we became the Nation's first taxable financed student loan secondary market. We began business early in 1984.

Unlike those visits I made to Washington in 1983 when I told the Department what we could do and what we would do, I am here today to tell you what we have done in our first year of operation.

We have purchased $35 million worth of educational loans and are now the largest holder of those loans in the State. We have serviced over 50 financial institutions, including commercial banks, savings banks, savings and loan associations, and credit unions.

In so doing, we have provided many of these lenders with a vast amount of technical assistance, and that in itself cannot help but be of great value to the Student Loan Program in our State.

We have purchased repayment loans as well as interim loans, both with no requirement as to either minimum loan size or portfolio size. In other words, the small, less profitable loans are given equal consideration with the larger loans. And then in addition, we have purchased PLUS loans, as well.

While doing all this, we have worked hand in hand with Maine lenders and the State agency. We were able to see that many loans were cured and that due diligence was put back on track.

This has not only put portfolios in order but has caused many lenders to begin long-range planning for the first time and recommit themselves to the future of the Educational Loan Program.

As a result, Maine, its students and parents, lenders and schools all benefit as the program becomes ever more stable.

Of course, the Federal Government benefits by having loans better serviced and having a better run program at the State level.

I would submit that this is very good for all involved and that even in our short existence MELMAC has shown that it can be a very positive influence on the Student Loan Program within our State.

I think MELMAC does fulfill its public purpose obligation as a secondary market and does represent a matter of good public policy.

The second point I want to emphasize today is the uniqueness of our organization. And since we are very different, many times in dealing with the Department or dealing with Congress we feel very much like a voice crying in the wilderness.

Until a little more than a year ago there was one type of student loan secondary market in the country, and they were all financed with tax-exempt bonds. Now there are three types.

Besides that original makeup, there are now those markets who do both tax-exempt and taxable financing, and there are those who do just taxable financing. And at this time I think that we are the only example of the last, a secondary market that has only taxable financing.

We are also, therefore, the only secondary market in the country to have never done a tax-exempt financing. So, we have no cushion to fall back on as the financial climate changes, only the deficit that we had when we began business.

Under these circumstances it becomes questionable whether we can make a secondary market like ours work. However, we are willing to be a model of sorts and give it our best efforts to make it succeed.

We are not looking backward and wringing our hands because we alone never had the benefit of any tax-exempt financing. We are rolling up our sleeves and looking ahead, dedicated to serving our State and its people. We are not a big, powerful State but rather a relatively poor and rural one. So, as I recently told Dr. Elmendorf, sometimes it gets lonely out there.

During the reauthorization process this Congress will have an opportunity to revisit the major provisions of the Higher Education Act. As you examine these policies which relate specifically to educational loans, some critical decisions must be made.

If the rules are to be changed, and undoubtedly they are, I want to point out how easy it will be to put us out of business and probably never even notice it.

In basic terms, the special allowance payments presently provide us 3.5 percent on which to operate 1.25 of that goes to pay for the cost of our funds, and 1.5 goes to pay for our loan servicing. That leaves us three-quarters of a percentage point on which to pay all other costs, payroll, utilities, telephone, postage, everything. And out of this narrow spread we must also be responsible for retiring our debt for startup costs.

It should be noted that unlike every other secondary market in the country, we have no other sources of revenue. Obviously, this is a very marginal operation at best. A visit to our offices would confirm there are no frills, and I want to point out that we operate with only four employees, including myself.

It is understood that this Congress is considering a decrease in the special allowance. And I suspect that perhaps some in the program can easily absorb that cut, while others will cease to exist. Obviously, each organization needs to make their own case on how any change would affect them. But as you can see from my illustration, you don't need an auditor, just simple arithmetic, to know what would happen to us.

I would like to ask that you consider in your deliberations treating educational loans being purchased with taxable funds differently from those being purchased with tax-exempt funds. We are not looking for any special treatment, I think, just fair treatment.

What we are doing in Maine is positive, productive, and cost effective, and we only ask that you look at each secondary market individually and understand that we aren't all apples anymore. So, please don't forget the oranges.

I sincerely thank you for your time and attention, and I certainly would be happy to answer any questions that you might wish to raise at this time.

We will start first with Mr. Pierce.

[The prepared statement of Richard Pierce follows:]

PREPARED STATEMENT OF RICHARD H. PIERCE, PRESIDENT, MAINE EDUCATIONAL LOAN MARKETING CORPORATION

Mr. Chairman, members of the subcommittee on Postsecondary Education. My name is Dick Pierce. I am President of the Maine Educational Loan Marketing Corporation [MELMAC] in Augusta, Maine. I am very pleased to have this opportunity to speak briefly to you and acquaint you with our organization and what we do.

I want to address two main points this morning.

First, are state secondary markets inherently good as a matter of public policy?

Secondly, I want to share with you the background of my organization and especially point out its uniqueness.

Beginning with my first point, I would say that state secondary markets are not inherently good but instead are potentially good. They are relatively new and probably have to be looked at carefully on a state by state basis to get their true value. I can speak only for my state, but I suspect that as the Congress and the Department review these state entities, it will be determined that the overwhelming number of them make significant contributions to their home states and their educational loan programs.

Maine undertook the establishment of a secondary market in 1983, primarily as a response to the many small lenders across our state who had no access to such a market.

Our organization was formed and designated by our Governor and the State Board of Education with approval of the State Legislature to perform educational loan secondary market services. Requesting a 60 million dollar bond issue with 40 million dollars already subscribed was expected to be relatively routine. That was not to be, as we were eventually turned down by the U.S. Department of Education. Unfortunately, our application was the first received by the Department following the subjective interpretations they made as a result of the Ford amendment. However, I am not here to cry on your shoulder about that, because I realize that life isn't always a level playing field.

Forced to seek alternative financing, we became the nation's first taxable financed student loan secondary market. We began business in early 1984. Unlike those visits to Washington in late 1983 when I told the Department what we could do and would do, I am here today to tell you what we have done in our first year.

We have purchased 35 million dollars worth of educational loans and are the largest holder of these loans in the State. We have serviced over fifty financial institutions including commercial banks, savings banks, savings and loan associations, and credit unions. In so doing, we have provided many of these lenders with a vast amount of technical assistance. That in itself cannot help but be of great value to the student loan program in our State. We have purchased repayment loans as well as interim loans both with no requirement as to either minimum loan or portfolio size. In other words, the small, less profitable loans are given equal consideration with the larger loans. In addition, we have purchased PLUS loans as well.

While doing all this, we worked hand in hand with both the lenders and the State Agency. By so doing, we were able to see that many loans were "cured" and that due diligence was put back on track. This has not only put portfolios in order but has caused many lenders to begin long range planning for the first time and recommit themselves to the future of the educational loan program. As a result, Maine, its students and parents, lenders and schools all benefit as the program becomes ever more stable. Of course, the Federal Government benefits by having loans better serviced and having a better run program at the state level. I would submit that this is very goood for all involved and that even in its short existence, MELMAC has shown that it can be a very positive influence on the student loan program within our State.

MELMAC does fulfill its public purpose obligation as a secondary market and does represent a matter of good public policy.

The second point I want to emphasize today is the uniqueness of our organization. Since we are very different, many times in dealing with the Department or Congress we feel very much like a voice crying in the wilderness.

Until a little more than a year ago there was one type of student loan secondary market, and it was financed with tax exempt bonds. Now there are three types. Besides the original, there are those who have now done both tax exempt and taxable financings and, finally, there are those who operate solely on taxable money. I believe we are the sole example of the latter. In other words, we are the only secondary market in the country to have never done a tax exempt financing. We have no cushion to fall back on as the financial climate changes, only the deficit that we had when we began business.

Under these circumstances, it becomes questionable whether we can make a secondary market like ours work. However, we are willing to be a model of sorts and give it our best efforts to make it succeed. We are not looking back and wringing our hands because we alone never had the benefit of any tax exempt financing. We are rolling up our sleeves and looking ahead, dedicated to serving our State and its people. We are not a big, powerful state but rather a relatively poor and rural one. So as I recently told Dr. Elmendorf, "It gets lonely out there."

During the Reauthorizing Process, this Congress will have an opportunity to revisit the major provisions of the Higher Education Act. As you examine those policies which relate specifically to educational loans, some critical decisions must be made. If the rules are going to be changed and, undoubtedly they are, I want to point out how easy it will be to put us out of business and never even notice it.

In basic terms, the Special Allowance payments presently provide us 3.5 percent on which to operate. 1.25 percent of that goes to pay for the cost of our funds and 1.5 percent goes for loan servicing. That leaves us .75 percent on which to pay all other costs including payroll, utilities, printing, postage, etc. Out of this narrow spread, we must also be responsible for retiring our debt for start up costs. It should be noted that unlike every other secondary market, in the country, we have no other sources of revenue. Obviously, this is a very marginal operation at best. A visit to our offices would confirm there are no frills, and I want to point out that we operate with only four employees including myself.

It is understood that this Congress is considering a decrease in the Special Allowance. I suspect that some in the program can easily absorb that cut while others will cease to exist. Obviously, each organization needs to make their own case on how any change would effect them. As you can see from my illustration, you don't need an auditor, just simple arithmetic to know what would happen to us. I am here to ask that you consider treating educational loans being purchased with taxable funds differently from those being purchased with tax exempt funds as you make your deliberations on the Special Allowance rate. We are not looking for special treatment, just fair treatment.

What we are doing in Maine is positive, productive, and cost effective. We only ask that you look at each secondary market individually and understand that we aren't all apples any more. So please don't forget the oranges.

I sincerely thank you for your time and attention. I would be happy to answer any questions that you might wish to raise at this time.

Mr. Ford. Thank you.

Mr. Borden.

Mr. Borden. Thank you, Mr. Chairman and members of the committee. I will simply attempt to summarize my remarks.

I do appreciate this opportunity to appear to testify on reauthorization because in Kentucky we take a special pride in this act as we feel it is one of the legacies of our own Carl Perkins.

We are also very pleased to have Chris Perkins, his son, here to work with you during the reauthorization.

Mr. Chairman, I have had the opportunity to testify before this committee on several prior occasions. In June of 1983 I testified both on student loan consolidation and on some, I guess, controversial default regulations which are utilized by the secondary market in Kentucky to attempt to contain default rates at reasonable levels.

Also, in April 1984 I testified on H.R. 5240. I have reviewed all that testimony and almost decided to just put a new cover on it and turn it in again because I do stand behind what I said at the prior hearings.

I would ask that you keep in mind some special characteristics of the organizations I represent. The Higher Education Assistance Authority is an agency of State government. The Student Loan Corp., which is the secondary market in Kentucky, is also an agency of State government.

The programs, policies and procedures of these two agencies are established for the benefit of Kentuckians and for non-Kentuckians who choose to come to our institutions. We cannot be a national guarantor. We cannot be a national secondary market.

A second point of great importance that I would ask you to remember is that both these agencies were chartered in response to the Higher Education Act and the various amendments to it.

In my opinion, the Federal-State partnership which features these two agencies in cooperation with the U.S. Department of Education has worked very, very well.

The single most important task of reauthorization is to ensure that we do nothing which will damage this effective program which is serving so many students so well.

When asked to testify, the threshold question was whether or not the State agency which guarantees loans and the State agency which is the secondary market were necessary to the process. That is a very timely question for us because we are now engaged in a strategic planning effort to determine whether we really need to continue to exist in order to provide these student loan benefits to our citizens.

To a very great extent, the way in which you reauthorize the act will determine whether or not we ought to continue to exist.

I have identified four particular issues of importance to us: Interstate banking, the absence of regulatory power, the process of controlling default rates, and Federal impediments to financing our secondary market in Kentucky.

First, with respect to the emerging interstate banking system, both the deregulation at the Federal level and the new laws which are being passed in several States lead us to believe that lenders are going to be in the process of loaning in several States. It will not take those lenders long to learn that it is more efficient to utilize a national guarantor than a guarantor which is restricted to activity in one State.

Of course, our State could authorize us to become a guarantor for such lenders but we think it is highly unlikely that a State general assembly would authorize a State agency to guarantee loans which would be entirely utilized in other States or by citizens of other States.

The main point is that as a State agency we simply can't compete so long as we are confined to the geographic boundaries and to State residency. We cannot compete for the business of the interstate lenders and it looks like our major lenders in the Kentucky program will become interstate lenders in the near future.

If you think we are valuable to the system, then I would suggest that there ought to be a public policy position adopted as part of reauthorization which would recognize the primacy of State agencies within their State boundaries.

The second issue, absence of regulatory power. As you know, a State agency guarantor or a State secondary market can regulate consistent with the act and the U.S. Department of Education regulations.

Under the present national system where lenders and educational institutions can shop for guarantors, they simply snub their noses at us and go to another national lender or to another guarantor to do business.

As a case in point, we had an institution in Kentucky which pled guilty to eight felony counts and signed a restitution agreement for several hundred thousand dollars. We terminated that institution from eligibility under our program. They simply went out, found a national guarantor and a willing national lender. They continue to do business as usual and we have no capability to control those affairs.

A third major issue, controlling default rates. As you know, we have always had an interest in keeping default rates at reasonable levels in Kentucky.

As the executive director of both the secondary market agency and the guarantor, I appear before the general assembly in Kentucky several times each year, or each time they meet.

The first question we are asked, or one of the first questions is always, how high is the default rate. We have been fortunate to be able to say at the end of every fiscal year it has been less than 5 percent.

We do have some loan purchase regulations which I have attached to my testimony as appendix A. I will not go into the details of those except to say that they have served us well.

We have also given statutory language to your staff which would enable us to continue to enforce these default or loan purchase regulations which allow us to differentiate our purchasing policy on the basis of default rates of schools or institutions.

Mr. Chairman, on page 9 of my testimony there are statistics which show some of the results of our monitoring of defaults. As you look at those statistics, you will see that access has increased in public and nonprofit institutions, it has decreased in the proprietary sector as they have sent those borrowers to other guarantors in other parts of the country.

We have learned through our monitoring of default rates that there is a correlation between default rates, fraud, and abuse. There is also a correlation with such high default rates with hard-sell recruiting practices, high dropout rates, low program completion rates, absence of meaningful academic progress standards, and financial or managerial insufficiency.

On page 8 of my testimony I give you four examples which show the correlation between high default rates and mismanagement.

Mr. Chairman, the fourth point is the Federal impediments to financing of our secondary market in Kentucky.

I was very careful in my written testimony not to refer to that as the Ford amendment.

Mr. Chairman, we reap no gain from policies in Kentucky which yield enormous arbitrage earnings but produce few loans. If you look at our financial statements, you will find that the bonds issued have resulted in large holdings of guaranteed student loans.

By the end of next month we will have about $247 million in loans in our portfolio financed by the issuance of tax exempt debt.

If we are to continue to remain a viable partner in the process, then it is necessary that we get some relief for funding sources.

At the present time we have about $600 million in backed up loans in the banking system in Kentucky which we need to purchase.

Finally, Mr. Chairman, we are beginning to think that with all of the problems which we face in having adequate regulatory control over the program of financing the program and in controlling default rates, that the impediments may be such that we ought to defer to the national guarantors like the Higher Education Assistance Foundation and ot the national secondary markets like the Student Loan Marketing Association.

We hope to stay in business. We will be there. We think the pendulum will swing back to State administration and that eventually we will be given the tools to run the program efficiently, effectively, and to keep our default rates reasonable.

Mr. Chairman, I appreciate the opportunity and would be happy to attempt to answer any questions.

[The prepared statement of Paul P. Borden follows:]

PREPARED STATEMENT OF PAUL P. BORDEN, EXECUTIVE DIRECTOR, KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY, AND EXECUTIVE DIRECTOR, KENTUCKY HIGHER EDUCATION STUDENT LOAN CORP.

Mr. Chairman, members of the committee, I am pleased to have this opportunity to appear before you to contribute in some small way to the reauthorization of the Higher Education Act of 1965 (the "Act"). As a Kentuckian, I have a special pride in the benefits this Act has brought to so many Americans because it is one of the many legacies of our own Carl D. Perkins. I also take comfort in knowing that Congressman Cris Perkins is here to work with you and the other committee members to carry on the tradition of educational leadership established by his father and this Committee.

Mr. Chairman, I have had the privilege of appearing before this Committee on several previous occasions. On June 8, 1983, I presented testimony on Student Loan Consolidation. On June 21, 1983, I provided some lengthy, detailed testimony on student loan default rates in Kentucky and a rationale for permitting our Secondary Market to hold both educational institutions and lenders responsible for high default rates. On April 10, 1984, I testified on the provisions of H.R. 5240. I carefully reviewed all that prior testimony and concluded that I should staple the three documents together, put a new cover on it, and submit it all again. However, rather than cause either of us to incur the cost of reprinting those lengthy documents, I'll simply reference them for the record and reiterate that I stand behind those prior recommendations.

On past occasions, I have emphasized the need for certain inclusions or exclusions from the Act for the generic secondary market and guarantee agency. Today, I will raise issues which are peculiar to the specific types of organizations which I represent. In order to place the issues in an appropriate context, I ask that you keep in mind the following characteristics of the Kentucky Higher Education Assistance Authority (variously referred to as "KHEAA" or the "Guarantee Agency") and the Kentucky Higher Education Student Loan Corporation (variously referred to as the "Corporation" or the "Secondary Market").

First, and most importantly, both the Guarantee Agency and the Secondary Market are state agencies, chartered by statute and subject to oversight by both the executive and legislative branches of State Government. The programs, policies, procedures, regulations and practices of the agencies are uniquely designed for the benefit of Kentuckians and non-Kentuckians who choose to attend one of our postsecondary institutions. As state chartered entities, the Guarantee Agency cannot be a national guarantor and the Secondary Market cannot provide national secondary market services.

Second, but also of great importation, both agencies were chartered in direct response to the enactment of, and subsequent amendments to, the Higher Education Act of 1965, particularly, the 1976 Amendments. The two agencies exist today because the evolution of the Guaranteed Student Loan program at the federal level essentially forced the state to get into the educational loan insurance business and the sparsity of loan capital in Kentucky forced us to establish and fund a secondary market which has, until now, been reliant upon issuance of tax-exempt debt. Please do not misunderstand, by my use of the word "forced," that we were or are reluctant participants in this student loan partnership. The federal-state partnership system has worked well in Kentucky and throughout the nation. While some fine tuning of the Act is in order, the most important task before this committee is to ensure that no change made during reauthorization will cause the loan guarantee and capital formation structures in any state to fail.

In Kentucky, we are now engaged in a strategic planning effort to determine whether the Guarantee Agency and the Secondary Market should stay in business. Is KHEAA necessary to the delivery of guaranteed student loans in Kentucky? Is the Corporation necessary to provide capital for loans in Kentucky? The way in which that Act is reauthorized will, in large measure, provide the answers to these two questions. How you deal with the following issues will be of critical importance to whether KHEAA and the Corporation will stay in business as state agency participants in the Guaranteed Student Loan delivery system:

1. Interstate banking.—The deregulation of commercial banks, savings and loans, and other financial services organizations which originate guaranteed student loans is a significant threat to single state guarantors such as KHEAA. The passage of laws in Kentucky and surrounding states which permit and, in some cases, encourage interstate bank holding companies and statewide or regionwide branching by financial institutions is accelerating. These multistate Guaranteed Student Loan originators will quickly find it convenient and cost effective to secure student loan insurance from a national guarantor such as the Higher Education Assistance Foundation or United Student Aid Funds rather than from several smaller single state guarantors, each with its own unique set of application forms, rules and regulations. Any state legislative assembly could, under present provisions of the Act, authorize a state agency to guarantee loans made by interstate lenders in other states. But, I suspect it would be difficult to convince Kentucky's General Assembly or the Governor that a Kentucky state agency should be permitted to insure a student loan made by a Florida Savings and Loan Association to a New Jersey student attending a Tennessee institution. The point is: A state agency guarantor confined to its geographic boundaries and its state residents cannot effectively compete for the business of interstate lenders. There is no meaningful competition today between our Guarantee Agency and the national guarantors. They can chisel away at our business but we cannot go into their states to compete. When they succeed in luring away three or four major lenders or educational institutions, neither our Guarantee Agency nor Secondary Market will remain as a viable partner in the delivery system. If you believe we are valuable to the system, you must adopt a public policy position which recognizes primacy of state agencies within their state boundaries.

2. Absence of regulatory power.—A state agency guarantor, such as KHEAA, and a state agency secondary market, such as the Corporation, can establish and attempt to enforce regulations consistent with the Act and U.S. Department of Education Regulations. Under the present structure, lenders or educational institutions which violate KHEAA or Corporation regulations can snub their noses at us and make arrangements with a national guarantor, such as the Higher Education Assistance Foundation or United Student Aid Funds, and a national lender, such as Chase Manhattan Bank or Florida Federal, to proceed with business as usual. A case in point is a Kentucky proprietary institution which KHEAA terminated after it pleaded guilty to eight felony counts of fraud and signed a restitution agreement with the U.S. Department of Education for several hundred thousand dollars. They found a new "national" guarantor and a willing "national" lender and are now doing business as usual here in Kentucky, and we have no ability to even review their current practices. The national guarantors and lenders are so large they either do not know or do not care about the students who are being ripped off. The current system which permits educational institutions and lenders to shop for guarantee agencies makes it impossible for any entity other than the USDE to sanction marginal practitioners. The USDE track record has not, to date, been one to inspire confidence.

3. Controlling default rates.—As Executive Director of two State Government agencies, I often appear before state legislative committees to testify about our various programs. Inevitably, one of the first questions is, "What is the default rate in your GSL program?" Fortunately, our default rate has always been less than five percent at the end of each fiscal year and that seems to be an acceptable level to most people in Kentucky. We believe the special two-year authority included in the 1983 Amendments to the Act which permits Kentucky's Secondary Market (the Corporation) to limit loan purchases when default rates attributable to education institutions or lenders exceed specified levels has been a valuable tool in maintaining low defaults and should be made available to guarantee agencies and secondary markets throughout the country. We have provided statutory langauge to your staff to permit all agencies to utilize regulations similar to our own regulations which are attached as Appendix A to this statement. For a complete description of the rationale for our loan purchase regulations (15 KAR 1:020 Purchasing Policies), you may wish to refer to my June 21, 1983 testimony before this Committee. A summary of the Corporation's actions pursuant to these regulations and an exchange of letters with this Committee's former Chairman and now Senator Paul Simon is attached as Appendix B. During the period we have enforced these regulations, access (as measured by utilization rates) has increased at public and nonprofit institutions and default rates have increased by less than one percent in both cases. However, access (as measured by utilization rates) at proprietary institutions has decreased while default rates have increased by 2.66 percent. It is obvious, from a review of statistics on page 9, that the proprietary institutions in Kentucky which have high default rates are guiding their students toward out-of-state lenders and guarantors to avoid our stricter policies. It is equally evident to our staff that high default rates attributable to students attending a particular institution are symptomatic of other problems, such as hard-sell recruiting practices, high drop-out rates, low program completion rates, absence of meaningful academic progress standards, financial or managerial insufficiency, consumer complaints, lack of consistent lending policies and lack of reasonable borrower financial counseling.

The following four examples illustrate the probable relationship between high default rates and program abuse. The three institutions still in operation currently direct with default rates cannot be effectively addressed under the current structure.

BOWLING GREEN JUNIOR COLLEGE OF BUSINESS, JUNE 30, 1984, DEFAULT RATE—18 PERCENT

The Financial Aid Officer pleaded guilty to two counts and the school corporation pleaded guilty to eight counts of falsification of information of loan applications. The school was required to pay off 188 Guaranteed Student Loans which had been falsified. When payment was not received in a timely manner, the guarantee agency terminated the school's eligibility.

KENTUCKY JUNIOR COLLEGE OF BUSINESS, JUNE 30, 1984, DEFAULT RATE—18 PERCENT

Following investigation of student complaints, the school paid to lenders approximately $70,000 in late refunds. No official sanctions were imposed in this particular case.

MR. JOHN'S SCHOOL OF BEAUTY, JUNE 30, 1984, DEFAULT RATE—28 PERCENT

Review of the institution ascertained that the school was insolvent and that it had grossly mismanaged financial aid programs. Litigation was filed by KHEAA (state guarantee agency), KHESLC (state secondary market), and the State Attorney General's Office, and the school was found liable for approximately $158,000 in Guaranteed Students Loans. The school subsequently filed bankruptcy without assets and has been closed since October, 1983.

LOUISVILLE COLLEGE OF MEDICAL AND DENTAL CAREERS, JUNE 30, 1984, DEFAULT RATE—13 PERCENT

The institution was found to have had an improper school/lender relationship (i.e., a compensating balance to induce lender to make Guaranteed Student Loans). Both the school and the lender were suspended and thereafter placed on probation by the State Guarantee Agency. The school has undergone a change of owership since that time.

Quite frankly, we do not mind losing their business, but we do object to the federal structure which permits an institution or a lender, which should be sanctioned because of questionable practices, to avoid accountability by simply taking its business to national guarantors and interstate lenders. The current national public and political concern significant numbers of borrowers to other guarantors and to interstate lenders:

Comparative Data
Guarantee Agency Volume

	1982-83 Loans	1983-84 Loans	1982-83 Amount	1983-84 Amount	Loan Increase (Decrease)	Amount Increase (Decrease)
PUBLIC	18,588	18,981	$37,536,457	$37,596,302	393	$ 59,845
NONPROFIT	3,102	3,551	$ 5,725,967	$ 6,812,237	449	$ 1,086,270
PROPRIETARY	6,044	4,059	$11,745,890	$ 8,231,605	(1,985)	($ 3,514,285)

Secondary Market Volume

	Mature Dollars Increase (Decrease)	Mature Loans Increase (Decrease)	Default Dollars Increase (Decrease)	Default Loans Increase (Decrease)	1983 Default Rate Aggregate	1985 Default Rate Aggregate	Default Rate Increase (Decrease)
PUBLIC	$80,771,546	15,934	$ 2,063,253	719	3%	3.3%	.3%
NONPROFIT	$ 7,293,582	2,666	$ 432,399	143	4%	4.7%	.7%
PROPRIETARY	$16,408,711	6,169	$ 1,787,116	664	5.82%	8.48%	2.66%

Guarantee Agency Income Distributions
by Type of Control

	AVERAGED ADJUSTED GROSS INCOME (RANGE)	% APPLICANTS RECEIVING NO OTHER AID (AGGREGATE)	FEBRUARY, 1985 DEFAULT RATE (AGGREGATE)
STATE UNIVERSITIES	$12,388.29 - $19,815.06	58.7%*	3%
COMMUNITY COLLEGES	$ 9,783.56 - $16,052.40	57.4%	7%
PUBLIC VTTS	$ 8,301.04 - $11,743.12	7.3%	9%
PUBLIC AVTS	$ 5,305.00 - $11,173.13	9.1%	8%
TOTAL PUBLIC	$ 5,305.00 - $19,815.06	53.0%	3.3%
NONPROFIT 4 YR.	$10,623.85 - $38,391.94	25.7%	4%
NONPROFIT 2 YR.	$ 8,343.10 - $19,397.33	10.2%	7%
TOTAL NONPROFIT	$ 8,343.10 - $38,391.94	24.3%	4.7%
PROPRIETARY	$ 7,570.37 - $18,838.39	38.2%	8%
COSMETOLOGY	$ 3,778.84 - $19,788.33	40.3%	10%
TOTAL FOR PROFIT	$ 3,778.84 - $19,788.33	38.4%	8.48%

* When adjusted by elimination of graduate schools of law and medicine, the percentage is 57.0% for state universities and the overall percentage for the public sector is 52.3%.

Percentage of Defaulters who were Dropouts by Type of Control

SCHOOL TYPE	# DEFAULTS	# DROPOUTS	% DROPOUTS/DEFAULTS
PUBLIC	1,799	1,017	56.5%
NONPROFIT	312	235	75.3%
PROPRIETARY	1,760	1,130	64.2%
TOTAL	3,880	2,388	61.5%

4. Federal impediments to financing the corporation.—The 1983 Amendments to Section 438(d) of the Act added a requirement that "the Authority will not issue obligations for amounts in excess of the reasonable needs for student loan credit within the area served by the Authority after taking into account existing sources of student loan credit in that area."

In Kentucky, the Corporation is an "Authority" within the meaning of this part of the act. We have no quarrel with the literal meaning of Section 438(d)(1)(G). As an agency of the state, we reap no gain from policies which yield enormous arbitrage earnings but produce few loans. Our salaries, operating and capital expenditures are controlled by state policies and are subject to public scrutiny and legislative review. Now, with the recent tax code amendments which place caps on states for private purpose bonds (which, believe it or not, includes student loan bonds), we are required to compete with other state debt authorities for the right to issue tax-exempt debt. We have not and we will not issue debt in excess of our reasonable needs for student loans. We presently have tax-exempt debt outstanding in the amount of $280,655,000 and own $234,345,000 in student loans. By the end of next month, the Corporation will own approximately $247,921,000 in student loans with no corresponding increase in debt.

If you desire to keep state agency secondary markets, such as Kentucky's, as viable partners in providing student loan capital, you should repeal Section 438(d)(1)(G) or amend it to exclude state agencies from the torturous construction given it by the USDE in the final regulations issued on February 10, 1985.

In conclusion, guarantee agencies and secondary markets which are agencies of state governments are easily differentiated from the national guarantors and secondary markets. We exist only to serve the educational needs of the citizens of our state and the people who, though not Kentuckians, choose to attend Kentucky institutions. We are beginning to think that the House, the Senate and the USDE may have concluded that Sallie Mae, the Higher Education Assistance Foundation and a few large national lenders can deliver the money and provide the administrative skills more efficiently than smaller single state agencies and that our demise will be in the public interest. If reauthorization leaves state agency guarantors and state agency secondary markets with no way to protect their lender base, with no way to enforce regulatory remedies, with no way to control default rates to levels acceptable in their own states, and with the current impediments to tax-exempt financing, then you will have decided our fate. We will be forced to call in the national guarantors and the interstate lenders and to step away from the reincarnation of the Federal Insured Student Loan Program in order to ensure continued access to student loan credit for our constituents. If that happens, we will be patient and we will be ready when the pendulum swings back to state administration of the program.

APPENDIX A

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

15 KAR 1:020. Purchasing policies.
Relates to: KRS 164A.060(2), 164A.060(8).
Pursuant to: KRS 164A.060(8), 13.082.

Necessity and function.—To establish policies for the purchase of Guaranteed Student Loans. The Kentucky Higher Education Student Loan Corporation (Corporation) is authorized by statute to finance, make and purchase Guaranteed Student Loans. The capability to finance such loans requires the adoption of reasonable purchase policies to minimize defaults and other losses of fund assets.

Section 1. Purchase Conditions. The Corporation will purchase eligible loans from participating lenders under the terms of the operative Corporation Loan Purchase Agreement until the occurance of one (1) of the following conditions:

(1) Ten percent of the originally disbursed principal amount of loans made by a single participating lender to borrowers for attendance at a single educational institution, and owned by the Corporation, have come due for repayment (matured paper) and the default rate (total dollar amount of default claims paid divided by matured paper) on those loans exceeds 10 percent.

(2) Ten percent of the originally disbursed principal amount of all loans made by a single participating lender and owned by the Corporation have come due for repayment (matured paper) and the default rate (total dollar amount of default claims paid divided by matured paper) on those exceeds 10 percent.

(3) Ten percent of the originally disbursed principal amount of all loans, purchased or made by the Corporation, to borrowers for attendance at a single educa-

tional institution have come due for repayment (matured paper) and the default
rate (total dollar amount of default claims paid divided by matured paper) on those
loans exceeds 10 percent.

(4) Ten percent of the originally disbursed principal amount of all loans pur-
chased, or made, by the Corporation to borrowers for attendance at a single educa-
tional institution have come due for repayment (matured paper) and the default
rate (total dollar amount of default claims paid divided by matured paper) on those
loans exceeds 15 percent.

Section 2. Suspension of Purchases. When a condition enumerated in section 1 of
this regulation occurs, as indicated by reports produced on the last day of December,
March, June, or September, pursuant to section 3(1), the Corporation will suspend
making purchase commitments as follows:

(1) When a condition of section 1(1) occurs, the Corporation will immediately sus-
pend making purchase commitments to that lender for loans to borrowers for at-
tendance at that educational institution.

(2) When a condition of section 1(2) occurs, the Corporation will immediately su-
spendmaking purchase commitments to that lender.

(3) When a condition of section 1(3) occurs, the Corporation will immediately sus-
pend making purchase commitments to any lender for loans to borrowers for at-
tendance at the educational institution, unless the loans are endorsed by a surety
acceptable to the Corporation and disbursed in multiple disbursements in accord-
ance with regulations, policies or procedures established by the Corporation, Ken-
tucky Higher Education Assistance Authority or the Federal Government pertain-
ing to such loans. (This does not preclude the Corporation from other wise requiring
endorsements or multiple disbursements based upon individual credit criteria.)

(4) When a condition of section 1(4) occurs, the Corporation will immediately sus-
pend making purchase commitments to all lenders for loans to borrowers for attend-
ance at the educational institution.

Section 3. Reports, Notification and Appeals. (1) Reports containing data on loan
volumes, matured loans, default claims paid and current default rates will be pro-
duced by the Corporation effective the last business day of each month and forward-
ed to each participating lender and to each Kentucky educational institution by the
tenth day of the following month.

(2) When on the basis of reports produced under section 3(1), conditions specified
in section 1(1) occur and action is to be taken under section 2(1), the affected
lender(s) will be notified by letter ("the mailing"), signed by the Corporation's Exec-
utive Director, enclosed with such reports and placed with the U.S. Postal Service as
certified mail, return receipt requested. A copy of such letter and applicable reports
will be provided in the same manner to any educational institution whose students
may be affected by such action.

(3) When, on the basis of reports produced under section 3(1), the conditions speci-
fied in section 1(2) occur and action is to be taken under section 2(2), the affected
lender(s) will be notified by letter ("the mailing"), signed by the Corporation's Exec-
utive Director, enclosed with such reports and placed with the U.S. Postal Service as
certified mail, return receipt requested.

(4) When, on the basis of reports produced under section 3(1), the conditions speci-
fied in section 1(3) or (4) occur and action is to be taken under section 2(3) or (4), any
educational institution(s) whose students may be affected by such action will be noti-
fied by letter ("the mailing"), signed by the Corporation's Executive Director, en-
closed with such reports and placed with the U.S. Postal Service as certified mail,
return receipt requested. In the absence of a request for a hearing pursuant to sec-
tion 3(5) or in the event any action is to be taken respecting suspension of purchase
commitments arising from the processes of section 3(5) or (6), all participating lend-
ers will be notified by letter, signed by the Corporation's Executive Director. Any
lender(s) so notified may, within 30 days following the date of the notice, petition
the Corporation for a hearing to appeal the suspension of purchase commitments.

(5) The suspension specified in section 2 of this regulation will be effective sixty
(60) days following the date the mailing, specified in section 3(2) (3) or (4) is placed
with the U.S. Postal Service for delivery, unless, within such 60 days, any interested
party or parties petition the Corporation for a hearing to show cause why the sus-
pension should not occur. Any interested party or parties may petition the Corpora-
tion by submitting a written request for a hearing to the Executive Director or to
the Chairman of the Corporation Board. The Corporation Board will subsequently
hear the matter at their next regular meeting scheduled for such purpose. Such
meetings will be convened on the first Monday of January, April, July, and October,
as necessary, (or the next following business day if Monday falls on a legal holiday).
Any action, suspension, remedy, policy, procedure or other matter resulting from

application of this regulation shall remain in force and in effect until modified by the Corporation's Board of Directors.

(6) Upon sending notification to lenders and/or educational institutions, pursuant to sections 3(2), (3) or (4), the Executive Director may negotiate with any or all interested parties to accomplish the purposes of this regulation. Any agreed resolution so derived shall be effective upon ratification by the Corporation Board at the next quarterly meeting or any other regular or special meeting. In the absence of such ratification, the matter shall be placed on the agenda of the next regular meeting scheduled for such purpose pursuant to section 3(5).

(7) The Chairman of the Corporation Board or a hearing officer appointed by the Chairman shall conduct a hearing. The Board shall make a determination upon the record of such hearing. For this purpose the Corporation shall cause to be made a transcript of all hearings and said transcript shall be made available to any interested party. Testimony, under oath or affirmation, may be presented to the Board orally or by written statement, provided that any written testimony to which a party objects by reason of inability to make inquiry or cross examination shall not be considered in the Board's determination. All parties to the hearing shall be afforded reasonable opportunity to make inquiry of any other party or any evidence offered for the record. Any documentary evidence offered may, at the discretion of the Board, be read into the record or incorporated by reference in whole or in part. Unless authorized by the Board at the hearing, no documentary evidence will be considered a part of the record when submitted after the close of the testimony. By a written stipulation or affirmation at the hearing, the parties may agree on any facts relevant to the hearing. The Board may take notice of any facts within its competence and may through its own experts or employees obtain such evidence as it considers necessary or desirable.

(8) In the event any hearing is requested by an interested party pursuant to section 3(4) or (5) or any negotiation is undertaken pursuant to Section 3(6), cause for setting aside a suspension of making loan purchase commitments prescribed in section 2 shall be evaluated with consideration given to the purposes of maximizing loan accessibility to borrowers while adequately protecting the Corporation's ability to offer its programs by minimizing the risk of future loan defaults. The Corporation Board may consider in determining cause any public purpose rationale propounded by any party to justify the assumption by the Corporation of the risk of excessive defaults or any remedy to control or reduce the risk of loan defaults. In this regard, the Board may consider, but is not limited to consideration of:

(a) exceptional service to low income, minority or handicapped individuals, subject to a showing of consistently applied lending policies, counseling practices, screening practices, and policies and practices designed to assure reasonable potential for the retention and academic success of the student and repayment of the loan;

(b) failure of the Corporation to abide by the terms of this regulation; and

(c) prior action under this regulation respecting any group of loans which in the judgment of the Corporation Board may alleviate, over time, the need to suspend the making of loan purchase commitments pursuant to section 2 by adequately accomplishing the purposes of this regulation.

Upon determination of cause for setting aside a suspension of making loan purchase commitments, the Board may authorize the continued purchase of loans by an agreement pursuant to KRS 164A.060(a) under such terms as the Board may, in its discretion, establish.

Section 4. Delay of Suspension of Purchases. The Corporation Executive Director may delay implementation of the administrative actions provided in section 2(1) of this regulation when the applicable volume of matured paper is less than $100,000 or section 2(2), (3), or (4) when the applicable volume of default claims paid is less than $100,000. However, each instance in which this authority is exercises shall be brought to the attention of the Corporation Board at its next regular meeting.

APPENDIX B

HIGHER EDUCATION ASSISTANCE AUTHORITY,
Frankfort, KY.

FILE MEMO

From: Richard F. Casey.
Date: April 1, 1985.
Subject: Enforcement of 15 KAR 1:020.

The following list represents actions taken by the Student Loan Corporation in the enforcement of 15 KAR 1:020.

ACTIONS UNDER SECTION 2(1) OF THE REGULATION

Lender, notice given, and final action.

Citizens National Bank of Bowling Green, May 10, 1983. Purchase commitment on loans from lender to students attending Bowling Green Business College suspended after July 10. No hearing requested.

Commercial Bank of Middlesboro and City and County Bank of Bell County, May 10, 1983. Continuation of purchase commitments on loans from lenders to students attending Lincoln Memorial University authorized, following a hearing, subject to agreement by the parties on certain conditions.

Pikeville National Bank, June 10, 1983. Purchase commitments on loans from lender to students attending Kentucky Jr. College of Business suspended after October 3. A hearing was requested by the school, which subsequently decided to discontinue its appeal.

People's Bank of Morehead, July 10, 1983. Continuation of purchase commitments on loans from lender to students attending Morehead State University authorized, following hearing, subject to agreement of the parties on certain conditions.

Bank of St. Helens, July 10, 1983. Purchase commitments on loans from lender to students attending Louisville College of Medical and Dental Careers suspended after September 10. No hearing was requested.

Citizens State Bank of Owensboro, July 10, 1983. Agreed resolution to continue purchase commitments on loans from lender to students attending Owensboro Jr. College of Business, under specified conditions ratified by board on April 26, 1984.

Bank of McCreary, October 10, 1983. Agreed resolution to continue purchase commitments on loans made to students attending Cumberland College, ratified by board on April 26, 1984.

Citizens Fidelity Bank of Louisville, October 10, 1983. Agreed resolution to continue purchase commitments on loans made by lender to students attending Spalding College, under specified conditions, ratified by board on April 26, 1984.

First and Farmers, October 10, 1983. Purchase commitments on loans made by lender to students attending Somerset Community College suspended after December 10. No hearing requested.

First National Bank, October 10, 1983. Purchase commitments on loans made by lender to students attending Jefferson Community College suspended after December 10. No hearing requested.

Future Federal Savings and Loan Association, October 10, 1983. Purchase commitments on loans made by lender to students attending Mr. John's School of Beauty suspended after December 10. No hearing requested.

Paducah Bank and Trust, October 10, 1983. Purchase commitments on loans made by lender to students attending Western Kentucky State Vocational Technical School suspended after December 10. No hearing requested.

Future Federal Savings, October 10, 1983. Purchase commitments on loans made by lender to students attending Spencerian College suspended after January 3, 1984. hearing was requested by school and cancelled at school's request.

Citizens Fidelity Bank & Trust, January 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Spencerian under certain conditions, ratified by board April 26, 1984.

Paducah Bank & Trust, January 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Draughons Business College, under certain conditions, ratified by board April 26, 1984.

First National Bank Grayson, April 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Morehead State University subject to board ratification.

First and Farmers Bank, Somerset, April 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Somerset Vociational School under specified conditions, subject to board ratification.

Peoples Liberty Bank, Covington, April 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Thomas More College, subject to board ratification.

Citizens National Bank, Somerset, April 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Somerset Community College subject to board ratification.

Citizens Bank of Pikeville, April 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Kentucky Jr. College of Business under specified conditions subject to board ratification.

Future Federal Savings and Loan Louisville, April 10, 1984. Purchase commitments on loans made by lender to students attending MTA, Inc. suspended after June 10. No hearing requested.

Future Federal Savings and Loan Louisville, April 10, 1984. Purchase commitments on loans made by lender to students attending Louisville College of Medical and Dental Careers suspended after June 10. No hearing requested.

Bowling Green Bank, April 10, 1984. Purchase commitments on loans made by lender to students attending Bowling Green Business College suspended after June 10, 1984. No hearing requested.

State Bank & Trust Co. of Richmond, July 10, 1984. Purchase commitments on loans made by lender to students attending Ky. Jr. College of Business suspended after Sept. 10, 1984. No hearing was requested.

Bank of Mt. Vernon, July 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Eastern Ky. Univ. under specified conditions.

First National Bank of Louisville, July 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Spalding University.

First National Bank of Luisa, July 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender to students attending Mayo State Vo-Tech.

Citizens National Bank of Paintsville, July 10, 1984. Agreed resolution to continue purchase commitments on loans made to students for attendance at Mayo State Vo-Tech.

Liberty National Bank, October 10, 1984. Purchase commitments on loans made by lender to students attending Ky. College of Technology suspended after December 10, 1984. No hearing was requested. Agreed resolution to continue purchase commitment on loans made by lender to students attending Sullivan Jr. College.

Pikeville National Bank, October 10, 1984. Agreed continuation of loan purchases for students attending Mayo State Voc. Tech with endorsers and multiple disbursements.

Citizens National Bank, January 10, 1985. Agreed continuation of loan purchases for students attending Bowling Green State Voc-Tech School.

Citizens Bank of Pikeville, January 10, 1985. Agreed continuation of loan purchases for students attending Pikeville College.

American Bank & Trust Company, January 10, 1985. Purchase commitments on loans made by lender to students attending Lexington Academy of Beauty suspended after March 10, 1985.

Southern Deposit Bank of Russellville, May 10, 1984. Purchase commitments on all loans from lender suspended after July 10. No hearing requested. Reinstated subject to board ratification.

Pikeville National Bank, October 10, 1985. Agreed resolution to continue purchase commitments on loans made by lender ratified by board on April 26, 1984.

Future Federal Savings and Loan, July 10, 1984. Agreed resolution to continue purchase commitments on loans made by lender.

ACTIONS UNDER SECTION 2(3) OF THE REGULATION

All lenders, notice given to school, and final action.

October 10, 1983. Agreed resolution to continue purchase commitments on loans from any lender to students attending Louisville College of Medical and Dental Careers, without having a qualified co-signer and disbursed in multiple disbursements. Ratified by board April 26, 1984.

January 10, 1984. Purchase commitments on loans from any lender to students attending Jefferson Community College continued after March 10, 1984 only for loans having qualified endorsers and disbursed in multiple disbursements. No hearing was requested.

January 10, 1984. Purchase commitments on loans from any lender to students attending MTA, Inc. continued only for loans having qualified endorsers and disbursed in multiple disbursements.

October 10, 1983. Final Board decision following January 3, 1984 hearing to continue to purchase loans from any lender to students attending Kentucky Jr. College of Business only with qualified endorsers and disbursed in multiple disbursements. Effective May 7, 1984.

July 10, 1984. Purchase commitments on loans from any lender to students attending Mayo State Vo-Tech continued only for loans having qualified endorsers and disbursed in multiple disbursements, subject to agreed resolution.

January 10, 1985. Purchase commitments on loans from any lender to students attending Draughon's Business College continued only for loans having qualified endorsers and disbursed in multiple disbursements. Effective after March 10, 1985.

ACTIONS UNDER 2(4) OF THE REGULATION

October 10, 1983. Purchase commitments on loans from any lender to students attending Bowling Green Business College to be suspended after December 10. Hearing requested by school and postponed by agreement with school. School terminated by KHEAA as of December 21, 1984

January 10, 1984. Agreed resolution to continued purchase commitments on loans from any lender to students attending Kentucky Jr. College of Business, subject to board ratification.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
Washington, DC, July 18, 1984.

PAUL P. BORDEN,
Executive Director, Kentucky Higher Education Assistance Authority, Frankfort, KY.

DEAR PAUL: On June 21, 1983, you appeared before the Subcommittee on Postsecondary Education, on behalf of the Kentucky Higher Education Assistance Authority [KHEAA] and the Kentucky Higher Education Student Loan Corporation [KHESLC], to discuss your proposal to condition the purchase of student loans from lending institutions and educational institutions whose default rate remained below 10 percent and 15 percent, respectively. At that time, I indicated my support for your efforts to reduce loan defaults and my willingness to authorize a one year experiment with the Kentucky regulation promulgated by your agency. Given one year of experience with the program, I am interested in your assessment of the strengths and weaknesses of the program, your identifying the name and type of institution, whose loans are not subject because of the regulation, and a response to the following more specific questions:

Are lending and educational institutions able to purge outdated loan paper creating an unacceptably high default rate?

How many lending or educational institutions exceed the acceptable default rate at present (June 30, 1984)?

How many lending or educational institutions had an acceptable default rate at the beginning of this program and have moved to an unacceptable rate? How many were acceptable and have fallen to an unacceptable default rate?

Have any institutions utilized the hearing process? If any, what reasons were offered in the hearing? What was the result of the hearing?

Has the quality or quantity of information or service from the schools improved since the adoption of the KHEAA/KHESLC regulations? If yes, please describe.

Have the regulations altered the behavior of lending or educational institutions in making loans or accepting students? If yes, in what ways?

What is the data on students who have sought loans and been unable to obtain them or altered their choice of an institution because of KHESLC's decision not to buy the loan?

Have banks increased their service charges to offset the increased cost for loan servicing because KHESLC will not purchase the loans?

Have the loan purchasing regulations had an impact on Kentucky's ability to meet desegregation standards?

I would appreciate your response to these questions. I look forward to hearing from you in the near future.

Cordially,

PAUL SIMON, *Chairman.*

[Noted.—For purposes of brevity the appendices mentioned in this letter were intentionally omitted. They will be made available to the Committee or staff upon request.]

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORP.,
Frankfort, KY, August 7, 1984.

Hon. PAUL SIMON,
Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, Cannon House Office Building, Washington, DC.

DEAR REPRESENTATIVE SIMON: I greatly appreciate the opportunity to provide you with an assessment of our experience with the student loan purchase regulation, 15 KAR 1:020, as requested in your July 18 letter. I will attempt to respond as briefly as possible, but the questions that you have posed necessitate that my remarks be somewhat detailed and supplemented with the attached materials.

I believe that this past year of enforcement of the regulation has been reasonably successful for several reasons. First, the regulation has led to a realization by lenders and schools that there is a shared responsibility in the efficient, economical administration of the loan program and the control of defaults. Second, lenders have been encouraged to develop more effective lending policies, yet not compelled to adopt specific policies mandated for all lenders. Third, in my opinion, neither loan access nor freedom of choice have been denied or unduly limited for any students.

It is admittedly difficult to substantiate these assertions in concrete terms. Therefore, the answers to your specific questions may shed some light on my assessment of these strengths of the regulations.

A weakness that was identified in the original version of the regulation was the unqualified use of a 10% default rate, often referred to as a "trigger," for suspension of purchases. We initially encountered the problem that suspension of purchases was mandatory (subject to a hearing) when as little as $10,000 of loans might be defaulted, which potentially was as few as two defaults. Obviously, it was never the intention of the Corporation to entirely eliminate the access of a lender to our loan purchase program over such a minor situation. For this reason, the regulation was refined so that suspension of purchase activity for a given lender or school is not mandatory until at least $100,000 of loans have defaulted, which, given our program size, we consider to be a significant default problem. Yet, the regulation retains purchase suspension, from a single lender, of loans for attendance at a single school if the amount of mature loans is at least $100,000 and the default rate is in excess of 10%. We believe this lowest level of sanction provides an early warning of potential for developing a default problem. While we still encounter some circumstances of as few as five defaults in this first "trigger" of the regulation, I believe that we have equitably dealt with these cases by process of negotiated exception to the regulation, which I will explain next. A copy of the revised regulation is enclosed as Attachment A.

A second weakness of the original version of the regulation was the requirement that all appeals be conducted through a public hearing process. We found that this presented the potential for needless adverse publicity for lenders and schools. Therefore, the regulation was refined to provide to me, as Executive Director, the authority to negotiate with a lender or school, at their request, to accomplish the purposes of the regulation without resort to a full public hearing. I have now undertaken a number of these negotiations, including several which involved very small default problems as alluded to above, and I believe they have been most beneficial for the lenders and schools who participated, as well as for the Corporation. In each instance, the negotiated settlement is documented in the form of an "Agreed Resolution," which is reviewed by the Board of Directors at an open, public meeting, and becomes a matter of public record. I have found each such case to be quite unique. Nevertheless, I am enclosing several samples as Attachment B for your review.

Additionally, the regulation has been slightly refined to specifically prescribe the appeal procedures and grounds for exceptions to suspension of purchases to assure that the rights of all parties are protected. Also, the provisions of the regulation related to notice have been refined such that, if the default rate on all loans at a particular school exceeds the prescribed limits, notice is initially sent only to the school to afford the school first opportunity to appeal while eliminating the potential for blacklisting by lenders.

As you can see from the foregoing, we have made substantial efforts to refine the regulation to retain its original scope and purpose, but assure that all parties are treated equitably.

A process has been developed to "cure" defaults when the guarantee agency collects from the borrower. This process, outlined in Attachement C, leads to the removal of the default from the calculation of default rate attributable to a lender or school.

The lenders and schools which have exceeded the acceptable default rates in the past year, and the disposition of those cases, are outlined in Attachment D. Additionally, notices were sent July 10 to the lenders and schools identified in Attachment E because of unaccepted default rates as of June 30, 1984.

Thus far, two schools have requested and been granted hearings. Lincoln Memorial University, of Tennessee, appealed a complete suspension for loan purchases for their students. In that case, the sanctions were substantially modified after the hearing and purchases were continued. Kentucky Junior College of Business appealed the requirement of multiple disbursement and endorsers on all loans to their students and the Board nevertheless determined, following a hearing, to impose those requirements. In two other instances, hearings have been requested and subsequently cancelled by schools. The decisions of the Board resulting from the two hearings are enclosed for your review as Attachment F.

We have found that the regulation has prompted a number of schools to cooperate in our loan collection efforts by providing our collectors with updated directory information on the borrowers as well as contacting the borrowers by phone or letter. I believe that such cooperation could become much more widespread, except that legal concerns of both the Corporation and the schools have necessitated considerable caution in the extent to which shools can take effective action. In this regard, legislation might be worth consideration to immunize, within limits, schools from possible liability for contacting delinquent and defaulted borrowers and withholding transcripts of such borrowers.

I believe that the regulation has caused lenders and schools to alter their behavior in a positive way. Lenders have become more aware of the need to control defaults and more alert to the sources of their defaults. A number of lenders have been encouraged to revise their lending policies and assume greater responsibility in making reasonable credit decisions, whereas, prior to the regulations, they tended to rely exclusively on the insurance of the guarantee agency and the purchase commitment of the secondary market. Schools have become more cognizant of retention problems and more cooperative in the collection process as referenced previously.

We have no hard data on the number of students who have altered their choice of schools because of the regulation since such information would be quite difficult to ascertain. However, I do not believe this has been a problem, to date, since no school has yet been completely eliminated from access to the purchase program by operating of the regulation.

I am not aware of any extra charges imposed by lenders. Neither am I aware of any detrimental impact of the regulation on the state's efforts to meet desegregation standards. Furthermore, I believe that the new provisions of the regulation, pertaining to setting aside suspension of purchases where exceptional service to minorities is demonstrated, would preclude any adverse impact on desegregation.

I am compelled to note one previously unmentioned strength of the regulation. We have found, during this past year, that often a high default rate is an indicator of other problems, which may not be directly attributable to improper administration of the GSL program. I would, therefore, cite to your attention Attachment G which is comprised of those lenders and schools which have presented some of the highest default volumes that we have encountered in the enforcement of the regulation. For this reason, if no other, I would contend that the regulation has been successful in pointing to problems that should be addressed.

Again, I appreciate the opportunity to inform you of our experience under the regulation. If I can answer any additional questions or provide any further information, I would be happy to do so. I hope that I will be given the opportunity to appear before the House Subcommittee on Postsecondary Education during the reauthorization process to provide a direct plea to permit continued flexibility for state agencies such as this to develop reasonable ways to control default rates.

We look forward to continuing to work with you and your highly capable staff following the Fall election. I hope that, as Senator Simon, you will continue your long service to education as a member of the Senate Subcommittee on Education, Arts and the Humanities and that I can continue to work with you in that capacity. Thank you for your continued interest in our efforts.

Sincerely,

Paul P. Borden,
Executive Director.

Mr. Ford. Thank you.

Mr. O'Toole.

Mr. O'Toole. Thank you, Mr. Chairman. I, too, would like to express my appreciation to the Chair and to the members and staff of the committee for the invitation to appear before you today.

As president of the New England Education Loan Marketing Corp., Nellie Mae, most of my efforts are directed toward the maintenance of secondary market programs for almost 500 private lenders in Massachusetts and New Hampshire who, over the course of the past 29 years, have contributed their capital to the support of student loan lending in those two States.

Since the beginning of our program in February 1983 we have had an Open Access Program allowing lenders to sell any type of loan, GSL, FISL, or PLUS loans, in any status whether they be in an in-school period, an in-grace period or repayment period, and without any regard to the average size of those loans.

By doing so without any restrictions, every contract we sign with a lender commits that lender to reinvest in new student loans and PLUS loans, and not just to graduate students in Massachusetts and New Hampshire, but to any eligible student who applies to that lender for a loan.

By providing universal access to our secondary market programs, we expect and we receive from each lender their commitment to provide universal access to new generations of students.

This then, Mr. Chairman, I would qualify as the special mission of the local private, nonprofit secondary markets.

I think the question is: Is this mission consistent with Federal education policy and the objectives set by this committee and the Congress to foster the Federal, State, and private lender partnership in making the student loan program a success?

Let me relate a little bit of the experience in the creation of Nellie Mae.

In 1980, as GSL volume was reaching record levels and interest rates were reaching record levels, the problems of the community lender, particularly the thrift institutions, were also reaching their apex.

The flow of funds from thrift institutions to all kinds of money markets was dramatic. And these lenders, particularly those in Massachusetts who had been the backbone of student loan lending since 1956 when the Massachusetts Program began, 10 years before Federal supported student loan lending, these lenders were unable to sell student loans to a secondary market due to purchase restrictions then in existence.

The board of directors of the Massachusetts Higher Education Assistance Corp. petitioned the State legislature in Massachusetts for the creation of a local supplemental secondary market, which was called Nellie Mae.

Then, under the very able leadership of State Senator Chester Atkins, Nellie Mae was created with a very public mission and with a very public board of directors, a listing of whom I have attached for you.

Since beginning our Loan Purchase Program, as I mentioned, we have purchased all loans that lenders wish to sell. Those included low balance loans, the so-called low balance loans, loans already in repayment, including those on a rule of 78's amortization basis, which provides for quite difficult servicing conversion upon purchase.

Today, more than 2 years after beginning our program, the average loan size in the Nellie Mae portfolio is $3,500, which is more than $1,000 lower than the average loan size held by Sallie Mae in Massachusetts.

Further evidence of the special mission of the local nonprofit secondary markets is that in a State like Massachusetts, which is a center of high-cost private and graduate education, Nellie Mae owns seven times as many loans of students who attended proprietary and vocational schools as we own loans of students who have attended graduate school.

Where Nellie Mae holds a total of 7 percent of the outstanding loans guaranteed by the Massachusetts Higher Education Assistance Corp., we own 9 percent of the outstanding loans of students who attended proprietary schools, and 19 percent of the outstanding loans who attended vocational or technical schools.

I would emphasize here, this is the type of supplemental special mission that I would envision for the local secondary market.

Further, I would add that as part of our loan purchase program, when we began purchasing loans in New Hampshire with the cooperation of the New Hampshire Guarantee Agency, we received the response that many lenders who had resisted making PLUS loans in New Hampshire because of the lack of secondary market for sale of those PLUS loans became PLUS lenders for the first time.

This, too is an expression of the commitment that we can make to lenders in the State that would enable them to participate to the broadest extent possible in the programs sponsored by this committee.

Moving on, at Nellie Mae we have put increasing effort into the issues of quality and integrity of the student loan programs.

As part of our mission, we have built a marketing and field support staff which bolsters and reinforces the efforts of each of the guarantee agencies to ensure the quality and integrity of the administrative processes of each participating lender.

Our staff includes a former Department of Education employee who worked in the GSL section. It includes a person who worked in the lender review section of the Massachusetts guarantee agency and who also worked for the New Hampshire guarantee agency, a training specialist from the Massachusetts guarantee agency, and two staff people who formerly administered and ran loan portfolios at successful savings banks in Massachusetts.

Throughout Nellie Mae's activities, both in terms of the field support that we provide to the lender and in terms of the publications, the seminars and meetings that we have with lenders, we are continuing to keep them up to date on congressional and regulatory changes. We are also continuing to update them on administrative processes that can increase their commitment to student loan lending as well as increase their due diligence activities in an effort to preserve the default and delinquency rate at the lowest possible levels and thus support the overall integrity of the program.

When we began our loan purchase operations in February 1983, we issued approximately $112 million worth of tax exempt bonds and notes.

Prior to February 1983 we had been unable to sell bonds and notes in the market due to the existence of high interest rates at that time. Since that time, we have acquired over $150 million worth of loans from these proceeds and other financings, which include a $50 million taxable borrowing completed in July 1984, through private sources in Massachusetts.

During the first 5 months of 1985, Nellie Mae has purchased more than $48 million worth of loans, in 5 months. Based on these sales and future sale commitments, we expect to purchase about $120 million worth of loans in 1985, and between $125 million and $150 million worth of loans in 1986 and 1987.

Clearly, Nellie Mae is actively purchasing loans with the proceeds of these borrowings, whether they be tax exempt or taxable, and yet these acquisitions, the speed of the acquisitions, the size of the lender demand in Massachusetts and New Hampshire, would seem to have little impact upon the Department of Education's interpretation of the revised plan for doing business rules.

The department's interpretation and administration of the plan for doing business rules has had a clear objective of minimizing, to the point of endangering local lender participation, the issuance of tax exempt debt to support student loan programs.

I would suggest to the committee that the problems envisioned earlier of overissuance of tax exempt debt in support of student loan lending has been solved by the state-by-state cap established by the Deficit Reduction Act of 1984.

If there exists strong State support for higher education funding, as it exists in Massachusetts, a tax exempt allocation will be made among the priorities established by that state through the Deficit Reduction Act process.

In the case of Nellie Mae, we received an allocation of $200 million in tax exempt issuance capacity from the Commonwealth of Massachusetts to support our student loan lending program, although I am certain that the Department of Education would consider us unable to demonstrate that level of need through their interpretation of the plan for doing business rules.

As you proceed with reauthorization, I would urge you to consider eliminating the Department's authority to act in this way.

In a very direct and applicable sense, the Department's activity through the plan for doing business regs has the ability to frustrate the approval of the entire Commonwealth of Massachusetts governance process in deciding who should have the capacity to issue tax exempt bonds and when they might do it.

Local secondary markets are now squeezed between proposals to eliminate tax exempt financing on one hand and the effects of reducing the yield on future loans by 30 basis points and reducing Federal reinsurance to 80 percent of defaults.

Most local secondary markets, without Federal back and without equity stockholders, simply do not have the credit capacity to raise money on a taxable basis at rates comparable to lending institutions or comparable to Sallie Mae.

Our own experience in raising taxable funds has been at a substantially greater cost than either of the above.

I would add here that the proposal to reduce Federal reinsurance on new student loans to 80 percent of the defaulted amount and the consequent reliance upon the reserves of each guarantee agency to meet an immediate share of each default will also increase the risk, increase the cost of borrowing to any local secondary market because investors in secondary market bonds or direct lenders to secondary markets will assess the credit capacity of the reserves of each guarantee agency, rather than the commitment of the Federal Government to meet the support.

In closing, Mr. Chairman, I would like to just add Nellie Mae's support to the recommendations of the National Council of Higher Education Loan Programs for reauthorization, with a few comments.

We would recommend the increase of loan limits to $4,000 to $8,000 per annum and $20,000 and $40,000 in the aggregate.

Massachusetts is the only State in which more than half of the students enrolled in postsecondary education are enrolled in private institutions, and 46 percent of New Hampshire's students are also enrolled in independent institutions.

Obviously, these are the institutions where the costs passed through to the students have increased with this rate.

We would also raise for your consideration the notion of applying regional loan limits to recognize the enrollment patterns in varying areas of the country, where in the Northeast, for example, and New England, the predominance of the students look to private institutions of higher education rather than State-based institutions.

We would also recommend to you to look to regional differences in cost-of-living and per capita income, which themselves argue against any fixed national standard, income standard for eligiblity for the program.

In New England, average family earnings are higher than in other areas or sectors of the country, but so, too are the costs, average costs of living and average costs of attendance, therefore arguing against a flat ceiling of $30,000, for example, for eligibility for the program.

One of the largest areas of concern for graduate students in Massachusetts is the availability of a loan consolidation program to simplify monthly payments.

Mr. Chairman and members of the committee, thank you very much for the opportunity to speak before you. I, with my colleagues, will answer any questions you may have.

[The prepared statement of Lawrence W. O'Toole follows:]

PREPARED STATEMENT OF LAWRENCE W. O'TOOLE, PRESIDENT, THE NEW ENGLAND EDUCATION LOAN MARKETING CORP.

Mr. Chairman, members and staff of the committee, thank you very much for the opportunity to testify before you as you consider the reauthorization of The Higher Education Act of 1965. I will focus my remarks upon the largest of the student aid programs. the Guaranteed Student Loan Program; that program which was an extremely successful model of the federal-state-private partnership espoused by this Administration and which is now the subject of debilitating cutbacks proposed by the same Administration.

As President of The New England Education Loan Marketing Corporation [Nellie Mae], the majority of my efforts are directed toward the maintenance of secondary market purchase programs which provide almost 500 private lenders in our service area of Massachusetts and New Hampshire with the assurance of being able to sell any student loan or PLUS loan not currently delinquent to Nellie Mae. By doing so, without any restrictions as to average size or time left in the grace period, every contract we sign commits that private lender to reinvest in new student loans and PLUS loans—and not just to graduate students—but to any eligible student who applies. By providing universal access to our secondary market programs, we expect and receive each lender's commitment to provide universal access to new loans for all students. This then is the special nonprofit mission of Nellie Mae and of similar nonprofit agencies and corporations in other states.

Is this mission consistent with federal education policy and the objectives expressed by the Congress in fostering this federal-state-private partnership?

PUBLIC MISSION

Consider the experience of Nellie Mae. In 1980, as GSL volume was reaching record levels and interest rates were approaching their record levels, the problems of the community lender were also reaching their apex. The flow of funds from thrift institutions of all kinds to money markets was dramatic. These lenders, who in Massachusetts had been the backbone of student loan lending since 1956, were unable to sell student loans to a secondary market due to the terms and conditions for purchase. The Board of Directors of the guarantee agency petitioned the State Legislature for the creation of a local supplemental secondary market, Nellie Mae. Under the able legislative stewardship of then State Senator Chester G. Atkins, Nellie Mae was created as a nonprofit corporation with a very public mission and public Board of Directors (listing attached).

UNIVERSAL ACCESS

Since beginning our loan purchase program in February, 1983, Nellie Mae has purchased loans already in repayment (including Rule of 78's amortization), PLUS loans and those loans considered "low balance" loans. In this way we supplemented the activities of Sallie Mae, providing lenders with selling options for their entire portfolio. Today, more than 2 years later, the average loan account held by Nellie Mae is $3,500, almost $1,000 lower than the average loan account held by Sallie Mae.

Further evidence of the special mission of local nonprofit secondary markets is that in a state like Massachusetts, a center of high-cost private graduate education, Nellie Mae owns 7 times as many loans of students who attended proprietary and vocational schools as we own loans of students who attended graduate schools. Where Nellie Mae holds a total of 7 percent of the outstanding loans guaranteed in Massachusetts, we own 9 percent of the outstanding proprietary school loans and 19 percent of the outstanding vocational/technical school loans.

QUALITY AND INTEGRITY

At Nellie Mae, we consider the issue of the quality and integrity of the student loan programs to be critical to preserving the high level of public support for continuing the programs. As part of our mission we have built a marketing and field support staff which reinforces the efforts of each guarantee agency to ensure the quality and integrity of the administrative processes of each participating lender. Our staff includes a former Department of Education employee who worked in the GSL section and authored GSL regulations, a former member of the lender review staff and training specialist from the Massachusetts guarantee agency, and two people who were in charge of managing two successful student loan programs at local banks.

Throughout Nellie Mae's activities we have undertaken, as part of our nonprofit mission, the enhancement of quality administration of the student loan programs at participating lending institutions. These efforts are reflected through the field efforts of the stafff described above, through publications and correspondence and through the conduct of annual seminars throughout Massachusetts and New Hampshire.

PROGRAM FUNDING—LOAN PURCHASES

Upon commencing operations in February, 1983, Nellie Mae issued approximately $112 million in tax-exempt bonds and notes. Prior to that, we were unable to sell bonds for a period of 5 months because interest rates were too high to support. Since that time, we have acquired over $150 million in loans from these proceeds and other financings, including a $50 million taxable borrowing completed in July, 1984.

During the 5 months of 1985, Nellie Mae purchased $48 million in loans. Based on these sales and future sale commitments, we expect to purchase about $120 million in 1985. We project that volume in 1986 and 1987 will be $125 to $150 million per year. Clearly, Nellie Mae is actively purchasing loans with the proceeds of its borrowing, whether they be tax-exempt or taxable. Yet these acquisitions and forecasts would seem to have little impact upon the Department of Education's interpretation of the revised Plan for Doing Business rules.

PLAN FOR DOING BUSINESS

The Department's interpretation and administration of the revision to the Plan for Doing Business adopted by this Committee, has had the clear objective of minimizing, to the point of endangering local lender participation, the isuance of tax-exempt debt to support student loan programs. First, there were no standards by which to judge compliance; then a year in which proposed standards were published but not observed by even the Department. The final regulations recently adopted established criteria unrelated to actual lender demand and require the use of financing features (such as prepayment of bonds) which are disliked by the investing community and thus result in a higher than necessary cost to the issuer.

I would suggest that the problem of overissuance by all types of tax-exempt issuers has been resolved by the state-by-state cap established by the Congress in the Deficit Reduction Act of 1984. If there exists strong state support for higher education, as in Massachusetts, a tax-exempt allocation will be made in an amount related to need. In the case of Nellie Mae, we received an allocation of $200 million from the Commonwealth of Massachusetts to support student loan lending, although I'm certain that the Department would consider tus unable to demonstrate that level of need. As you proceed with reauthorization. I would urge you to consider eliminating the Department's authority to act in this manner.

PROPOSED ELIMINATION OF TAX-EXEMPT FINANCING

Local secondary markets are now squeezed between the proposals to eliminate tax-exempt financing for student loan bonds on the one hand and the effects of reducing the yield on future loans to T-bill plus 320 points and reducing federal reinsurance to 80 percent of defaults. Most local secondary markets, without federal backing and without equity stockholders, simply do not have the credit capacity to raise money on a taxable basis at rates comparable to lending institutions or Nellie Mae. Our own experience in raising taxable funds has been at a substantially greater cost then either of the above.

The proposed reduction in yield by 30 basis points may prove to make taxable financings impossible for the smaller or weaker credit agencies. Further, because the only asset of these nonprofit corporations are the federally guaranteed student and PLUS loan notes, the reinsurance reduction from 100 percent to 80 percent and the consequent reliance upon the upfront reserves of each guarantee agency will serve to increase the cost of borrowing, tax-exempt or taxable due to the increased credit risk.

NCHELP RECOMMENDATIONS FOR REAUTHORIZATION

Nellie Mae supports the recommendation submitted to the Subcommittee by the National Council of Higher Education Programs (NCHELP) with these comments:

1. Increase loan limits to $4,000 and $8,000 per annum and $20,000 and $40,000 aggregate—

More than half of the students in Massachusetts and 46 percent of the students in New Hampshire are enrolled in independent institutions of higher education. Loan limits have not increased since 1972 and have not kept pace with costs.

We would further suggest that consideration be given to establishing regional loan limits reflecting regional costs so as to make loan capital available where needed but not encourage overborrowing.

2. Maintain loan eligibility based upon demonstrated need:

Again, regional differences in cost-of-living and per-capita income argue against any fixed income limit for loan elibility. In New England, average family earnings are higher than other regions of the country, but so too are the costs of everyday living and college attendance.

3. Provide a Loan Consolidation Program: longer repayment periods and graduated repayment options:

Among graduate students, the ability to consolidate loans into a single monthly payment is their greatest concern going into repayment.

4. Preserve the current yield of T-Bill plus 350 basis points to maintain strong lender support and local secondary markets.

5. Affirm in The Higher Education Act the role and contributions of local secondary markets.

6. Preserve the ability of local nonprofit secondary markets to utilize tax-exempt financing within the parameters of the Deficit Reduction Act.

7. Rewrite the Plan for Doing Business requirements to eliminate and prohibit the Department's duplicative oversight of tax-exempt issues.

8. Preserve 100% federal reinsurance or permit guarantee agencies to purchase full 100 percent reinsurance at a cost of ½ percent.

9. Restore the 9 month grace period to reduce delinquencies and defaults.

10. Eliminate the requirement that a claim be immediately filed in the case of a borrower filing a petition in bankruptcy seeking to discharge other debts.

In closing, I thank the committee for the opportunity to appear before you. I would be pleased to answer any questions you may have at this time or during the course of your deliberations on the future of the student loan programs.

THE NEW ENGLAND EDUCATION LOAN MARKETING CORP.—BOARD OF DIRECTORS

	Representative of education institutions or associations	Representative of lending institutions	Representative of the general public
For term expiring:			
June 30, 1985	John C. Hoy, president, New England Board of Higher Education, 45 Temple Place, Boston, MA 02109 (617) 357-9620	Elaine L. Simmons, Senior, vice president, Mutual Bank, 45 Franklin Street, Boston, MA 02110 (617) 482-7530	Joseph M. Cronin, president, Massachusetts Higher Education Assistance Corp., 330 Stuart Street, Boston, MA 02116 (617) 426-9434
	Everett P. Pope, chairman of the board, Bowdoin College, 6 Longfellow Avenue, Brunswick, ME 04011 (207) 725-6587	Robert A. Wells, president and Chief executive officer, Berkshire County Savings Bank, The Popcorner, Box 1308, Pittsfield, MA 01202 (413) 443-5601	Kathy Phillips, Esq., Computervision Corp., legal department, 15 Crosby Dr. 22-2, Bedford, MA 01730 (617) 275-1800
	Janet G. Robinson, vice chancellor of student affairs, board of regents, suite 619, 1 Ashburton Place, Boston, MA 02108-1530 (617) 727-0646		
June 30, 1986	Brother Joachim Froehlich, president, St. Anselm's College, St. Anselm Drive, Manchester, N.H. 03104 (603) 669-1030	Peter J. Blampied, president, Boston Five Cents Savings Bank, 10 School Street, Boston, MA 02108 (617) 742-6000	Richard G. Dooley, executive vice president and chief investment officer, Massachusetts, Mutual Life Insurance Co., 1295 State Street, Springfield, MA 01111 (413) 788-8411.
	Walter Peterson, president, Franklin Pierce College, Rindge, N.H. 03461 (603) 899-5111	Paul M. Ferguson, vice president, Commercial Lending Division, Merchants National Bank, 407 Amherst Street, Nashua, N.H. 03163 (603) 668-5000 x399	Alice Jelin, public relations consultant, 176 Marlborough Street, Boston, MA 02116 (617) 727-6286.
		Ronald A. Homer, president and chief executive officer, Boston Bank of Commerce, 110 Tremont Street, Boston, MA 02108 (617) 423-1010	
June 30, 1987	Katharine Hanson, executive director, Consortium on Financing Higher Education, Room 500, 238 Main Street, Cambridge, MA 02142 (617) 253-5030	Joseph V. Forti, chairman, Rockland Credit Union, 241 Union Street, Rockland, MA 02370 (617) 878-0232	Judith Allen, executive director, New England College Board, 470 Totten Pond Rd., Waltham, MA 02154 (617) 890-9150.
	Dolores Mitchell, director, Katharine Gibbs School, 5 Arlington Street, Boston, MA 02116 (617) 262-2250	Thomas S. Zocco, vice chairman, Consumers Bank, 2 Westborough Business Park, Westborough, MA 01581 (617) 366-0700	Helge Holst, former chairman and president of MHEAC, 1165 Monument Street, Concord, MA 01742 (617) 369-9551.

THE NEW ENGLAND EDUCATION LOAN MARKETING CORP.—BOARD OF DIRECTORS—Continued

Representative of education institutions or associations	Representative of lending institutions	Representative of the general public
		Judith Kurland, director of corporate public affairs, New England Medical Center, 11 Nassau Street, Hemenway—2d Floor, Boston, MA 02111 (617) 956-0204.

Mr. FORD. Thank you, gentlemen. All three of you have mentioned your concern with and the difficulty you have had with the Ford amendment.

In looking at the statute, prior to that amendment we required of you that a plan be filed with the Secretary showing, (A) no eligible lender in the area served by the authority will be excluded; (B) no director or staff member would hold stock; (C) student loans will not be purchased from participating lenders at a premium discount of more than 1 percent; (D) the authority will, within the limit of funds available and subject to the applicable State and federal law, make loans to or purchase loans incurred by all eligible students; (E) the authority has a plan under which the authority would pursue the development of new lender participation in a continuing program of benefit to students; (F) there will be an annual audit of the authority by a certified public accounting firm; and then finally comes the Ford amendment.

And here is what it say: "The authority will not issue obligations for amounts in excess of the reasonable needs for student loan credit within the area served by the authority after taking into account existing sources of student loan credit in that area."

Now, to each of you, why does that limitation cause you a problem?

Mr. BORDEN. Mr. Chairman, as I indicated in my submitted remarks for the record, we have no difficulty at all with the literal meaning of the Ford amendment, as you read it, "The authority will not issue obligations for amounts in excess of the reasonable needs for student loan credit within the area served by the authority."

The difficulty is in the way in which the U.S. Secretary of Education has defined and established the procedure for establishing the reasonable needs of students.

One of the things that I meant to do today but didn't have room in my briefcase was to bring a copy of that amendment, which is one page, a copy of the regulations, which is probably about 20 pages, and a copy of the filing which is necessary to get the approval, which in Kentucky's case since January would be a stack about that high.

We are required to almost make national surveys of credit availability, rather than focus upon the geographic area that we were established and intend to continue to serve.

Also, the definition by the Secretary of the phrase "in that area", we think, has been completely ignored by the department in its regulations.

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An additional point is that there was supposed to be a 30 day period with respect to reaction to a State's petition for authority to issue bonds. The interpretation of that has been that the 30 day clock does not start ticking until they make a decision that the submission is complete, which means it may never start ticking.

That makes it extremely difficult for our secondary market to make reasonable plans to meet the financial needs of our students, and it makes it very difficult for us to keep good relationships with the 290 lenders who want to participate in our program because we never know whether we can have the financing available in the form needed, when needed because of the application or the interpretation of this amendment by the department.

Mr. PIERCE. I think Paul has summed up probably for all of us very well. Let me just add a couple of points about our particular State.

We filed our application in August and finally were turned down, I think it was the last day of December, and jumped through an incredible number of hoops in the meantime.

The intention of the amendment, I think, I have never heard anybody in this business have any problem with. It was the interpretation the department was making and the way they were using it to stop any further tax exempt funding.

I think clearly there will never be a national secondary market that will sit down with the people at Ste. Femie Credit Union or wherever else you may be in Maine—we have a lot of those small lenders who need the assistance. They have one person who does 10 jobs, including the Student Loan Program, and they are having real problems to keep up to par. And those are the people that we are trying to help in the small institutions that have never had access and to this day don't have access to any secondary market except ours.

And when we did our bond issue, we asked for $60 million. We had $40 million already signed up. And I think that maybe says it all right there.

Mr. O'TOOLE. Mr. Chairman, I would echo the statements of both colleagues and add that I would think that the department, in its administrative processes, has not been enforcing the intent of this committee but rather the intent of OMB in curtailing the availability of tax exempt financing in any capacity, in any sector, whether they be as IDB's or other types of tax exempt issuances.

Further, the regulations as finally adopted don't serve the best interest of the issuer, even if they are approved. Certain of the programmatic requirements are such that any bonds be called early and retired at the point that you have received principal payments from students or as a result of a default, really do not serve the best interest of the issuer or the program because they make the borrowing cost to the issuer higher, because the investing community would extract a penalty for having their investment taken away from them early, and because the issuer does not have the ability to recycle those principal payments into the continuity of the loan purchase program which is offering and has to rely simply upon new money.

Mr. FORD. Well, each of you has suggested that we ought to repeal that requirement. I have to observe that in the case of Kentucky, with a submission this thick, I can't believe that that submission becomes that thick entirely to answer the question as to whether or not your are issuing obligations for amounts in excess of reasonable needs.

Doesn't part of that deal with the (A) through (F) requirements of the regulation, as well?

Mr. **Borden**. Yes, sir, about that much. The rest of it consists of surveys of all of the educational institutions, surveys of the lenders, letters of inquiry to secondary markets which have been identified as prospective providers of capital in the State, and then an enormous amount of information dealing with negotiation with taxable providers of credit to show the very thorough analysis and effort which we made to convert our system from a tax exempt to a taxable.

Mr. **Ford**. All right. If we were to simply strike (G) from that section of the law, we would say that the authority may issue obligations for amounts in excess of reasonable needs, because if we have a provision in the law that says you may not and we strike it, by assumption is that any court would say that meant that we were intending to permit you to do that.

I don't think you are urging that. Are you?

Mr. **Borden**. No; that is not the intent. The urging is really for——

Mr. **Ford**. Then how would you change the statute without having that result?

Mr. **Borden**. I believe that the statute could be changed in such a way as to restrict the ability of the Secretary of Education to interpret it as it has been interpreted and perhaps to transfer to State governments the capability to make that decision, as they do indeed make it under the Deficit Reduction Act, the amendments to the Tax Code.

In effect, I think with that new law we could rely upon the states to make those kinds of decisions.

Mr. **Ford**. You do know that that is the gleam in the eye of all legislative committees up here, to be able to keep secretaries from messing up the law after we write it. Unfortunately, the Supreme Court has taken us out of that business.

This committee, the Education and Labor Committee, was the first, a long time ago, before the bright young people started using the fancy terminology of one and two house vetoes, to write into legislation, in the GEPA provisions in the law, a requirement that regulations affecting education would be submitted to our committee and to the Senate committee, and we could turn them down.

Unfortunately, that idea sounded so good to a lot of people, they started applying it in a lot of other statutes. It went to the courts and the courts said we are interfering with the executive authority of the Government and therefore we can't do that. We can't look over the shoulder of the President and his representatives, to wit the Secretary, and turn down their regulations.

So, we have to legislate a regulation out of existence if we don't like it, and we have indeed come to that. Not until this Administration have I seen it necessary to legislate all the way through a change in the regulations. Someplace along the way they usually get the message and sit down and work something out. These folks have a tendency to say, well if you want to change it, go ahead and change the law and see if the President will sign it. And they push us right to the wall.

If reauthorization is to deal with this problem created by the regulations, it will have to do so by specifying in the statute limitations on the regulations. And I think what the gentleman from Kentucky is talking about is the part that says, "within the area served by the authority," the Secretary apparently has taken an artistic view of what the "area" might mean. "After taking into account existing sources of student loan credit", I guess that does invite an overzealous, green eyeshade, sleeve garter type to say, well, let's examine every last person with a bank account to see if they are available.

That is obviously carrying it to the ridiculous. I engaged in a formal correspondence back and forth with Secretary Bell as a result of those regulations. That was given a considerable amount of note and attention in the community, as well as personal conversations with him, and was assured that they were trying to work it out.

I don't think he was ever able to get it past the general counsel over there, who was not someone of his choosing, I suspect. He is gone now and so is the Secretary, but I don't expect this Secretary would be easier to deal with than Ted Bell was.

So, if we are to do something, we need a specific suggestion from you about how we can ameliorate, if not resolve your problems, without throwing the baby out with the bath water.

We do not want to legislate in such a rigid way that we make it impossible for the department to carry out what the intent of that amendment and indeed that entire section is.

One glances quickly at the numbers for Kentucky, for example, and finds that in 1984 you had a loan volume of $57 million and in 1984 you had an outstanding tax free revenue bond income of $239 million.

Not until you go behind that and figure out what the cumulative package is and then factor in the fact that you are not only a secondary market but a lender, do you begin to see that maybe the numbers aren't as bad as they look.

Maybe over there the pencil pushers look at those numbers and don't realize what the component parts are and don't ask you the right questions to get the answer to satisfy them that indeed you are not ripping off the taxpayers to arbitrage a lot of money.

The reason for the amendment was a pattern that emerged of states using the cover of borrowing for guaranteed student loans.

One that has cleaned up its act beautifully since the amendment borrowed $50 million one year and made $3 million in loans. The $50 million went into the State-owned bank and then worked its merry way to help the taxpayers of that State.

We were getting complaints, pressure in part that led to the caps being put on the States in the 1984 act. It came from these types of abuses.

We could not sit back and say, well, it is building the shopping centers that is causing the trouble because they would point to these outstanding cases and say, no, everybody is in on the act.

Now all the States, those who were not abusing it, did not have any appearance of abuse, are under the same limitation as those who were playing games.

Next year that cap comes down. I think it goes down to $100, doesn't it?

Now, at this point in my State it doesn't touch us because we hadn't borrowed $150 per capita. But if it comes down to $100, I am not too sure that we won't start to hurt, even though we have never been close to it in the past.

Even with the limitations that have been placed on the types of purposes for which these can be issued, we are going to have some difficulties with that cap.

So, I don't think that we would be able to convince the Congress in any way at all that we were doing anything directly or indirectly to go back in the direction of opening up the market, if you will, for tax-free revenue bonds. You are not going to get a Congress that is overwhelmingly concerned about deficits and talking about nothing else at the moment except the Reagan I and Reagan II, Kemp and Gephardt and everybody else that has got a fancy tax bill around here—they all have a couple of things in common, and one of them is that they go after this kind of tax-exempt security.

So, the availability of them is very tenuous, at best, certainly over the long haul given the present climate here, and if you gentlemen can suggest a way for us to restructure the statute so that we can put a little discipline in the Department of Education, you will have a willing committee here wanting to work with you.

It has to be done in a way, however, so that we do not end up with a construction that even has the appearance of retreating from the idea that no one should be borrowing through tax-free sources more money than they are likely to need for the markets they are servicing.

That second part of that requirement has to be in there, it seems to me, because if you don't, then you simply would have them say, well, this is what we need, and they don't even bother to ask the fellow next door if he has got any money.

You said, for example, that prior to 1983 there was no secondary market available to lenders in Maine.

Mr. PIERCE. Prior to 1983, the Student Loan Marketing Association had done business with about five or six Maine institutions, mostly the larger ones. It obviously is not economically feasible for them to go to Machias, ME or Arusta County or many of the remote areas, and also at the time they had severe caps on the loan sizes and the portfolio size.

So that most of the institutions we do business with are doing business with the secondary market for the first time.

Mr. FORD. But there was a secondary market of some kind available to them?

Mr. PIERCE. There was a secondary market available to a very small number of lenders, yes. Most of the lenders could not meet the requirements.

Mr. FORD. What kind of requirements were they having trouble with?

Mr. PIERCE. Loan size, portfolio size, mainly. And the credit unions, the S&L's, the small savings banks, most of them could not meet those types of requirements. And most of them also need a lot of onsite help preparing loans for sale.

Mr. **Ford**. Now, why is it that you end up with no tax-free revenue bond money in your program?

Mr. **Pierce**. I ask myself that same question every day. The answer is that we were a startup entity and we were never allowed to do even one tax-exempt financing.

I think, frankly,——

Mr. **Ford**. Why can't you do it today?

Mr. **Pierce**. The Department will not give us approval. I think, quite frankly, that we could make it with some kind of a taxable financing and maybe a little bit of tax-exempt help. But the point is, being wholly taxable, we have no kind of a cushion to fall back on, and once that special allowance rate goes down—we don't know if we can make it now, but once it goes down, I think the handwriting is very clear.

Mr. **Ford**. But you had an actual determination, a final determination by the Department you didn't qualify?

Mr. **Pierce**. Yes.

Mr. **Ford**. Or are you still hanging?

Mr. **Pierce**. No, it is not still hanging. It hung from August 14 to December 31 and then they acted on it.

Mr. **Ford**. Now, what did they tell you on December 31 was the reason why you couldn't qualify for tax-free revenue bond money?

Mr. **Pierce**. Basically, they naturally wanted to hang it primarily on the good Congressman, whose reputation nationwide is certainly very pro education, and we know what you have done for students for many years.

I think clearly OMB was making most of the decisions, not the Department of Education.

Mr. **Ford**. Well, what did they state as the reason why your application——

Mr. **Pierce**. Other sources of credit were available, and that just was not the case. And we have letters from lenders all over the State asking that we be established. You know, it is the same story. We had a Government and the State legislature and the State board, everybody wanted it.

Mr. **Ford**. Then when you didn't get the authority to use the tax-free revenue bonds, you didn't go out of business?

Mr. **Pierce**. We never went into business. We were running a deficit and so we never got into business. And at that point we borrowed taxable money and did a taxable financing. It was that or end the battle there. We obviously couldn't go on any longer.

We did that taxable financing and we are trying very, very hard to make it work. And we have had excellent cooperation from the Student Loan Marketing Association and we would like to think that perhaps it can work, and we thought maybe the Department would be a little bit interested in us being a model for that, that if Maine could make it work, maybe others could.

Mr. **Ford**. Wouldn't they be more likely over there to say, you see, they didn't need it, they were able to get along without it, that proves——

Mr. **Pierce**. Sure, but they are not going to be able to say that too, too much longer because we are not going to be around if things continue the way they are going, if the special allowance is cut.

We are operating on three-quarters of 1 percent right now, and if that is cut further, you see what happens to us.

Mr. Ford. Then the essence of the problem is that you, as a State agency, are found in the position where you have to go into the market for taxable funds.

Mr. Pierce. That is correct.

Mr. Ford. And they took the availability of the taxable funds to be availability of funds without regard to whether they were taxable or not?

Mr. Pierce. That is right.

Mr. Ford. So, as a practical matter, you consider them not as available because the cost is higher?

Mr. Pierce. The practical matter is that if we could do even a small—I think if we could have done just a $20 or $30 million tax-exempt issue, we probably could make our type of secondary market work. But, again I don't want to belabor the point, but we are the only secondary market that has never done a tax-exempt financing. So, we don't have that little cushion that everybody has.

Mr. Ford. Well, let's work on that. It doesn't seem to make sense to me.

Mr. Pierce. We would be happy to work on that with you.

Mr. Ford. And we don't like to have Maine out of step. The last time they did that, in my memory, was in the Roosevelt election and they have been famous in my part of the country ever since.

Mr. Pierce. And you see what has happened since, though. They have turned right around and gone just the opposite direction.

Mr. Ford. Thank you very much.

Mr. McKernan.

Mr. McKernan. Thank you, Mr. Chairman. I would like to follow up on that, if I could, with you, Dick.

We have established that Maine is the only State that has a fund that is financed solely with taxable funds. Is that correct?

Mr. Pierce. That is correct.

Mr. McKernan. I understand that either since the decision by the Department of Education in your case or before, that some secondary markets which had previously been financed with tax-exempt funds have been required also to go the taxable fund route. Is that true?

Mr. Pierce. Well, not in Maine. There are other——

Mr. McKernan. No. I am talking about other States.

Mr. Pierce. Yes. Nationally, certainly, there are many entities, Larry's being one of them, who have done taxable financing as well as their original tax-exempt financing. So, they have a combination.

Mr. McKernan. Is that because the Department requires them to or because they just decided that they could stay in business doing that?

Mr. Pierce. No, obviously it is more expensive to do the taxable and they didn't have any choice.

Mr. McKernan. I am not as familiar as you are with the Ford amendment, since this is my first term on this committee, but from what I have read, it seems to me that the intent, as we have heard here today, was to be sure that the secondary markets weren't receiving more in tax-exempt funds than they really needed.

Mr. **Pierce**. That is right. And not only is nothing wrong with that, but something very right with that.

Mr. **McKernan**. How did the Department of Education justify to you that what the amendment really meant was that if you could find any other source of funds that you should do that and that, in fact, the real intent of the amendment was that you could go out and find other funds?

Mr. **Pierce**. Well, obviously they have their point of view and we have ours. I don't think they ever did justify that.

Mr. **McKernan**. It is my understanding that since Maine was denied, other States have been granted the authority to issue tax-exempt bonds. Is that correct?

Mr. **Pierce**. Yes, others have.

Mr. **McKernan**. What was the basis of that ruling?

Mr. **Pierce**. I am not familiar with all of them, on just what basis and I don't want to misquote the Department on why they allowed some and not others. Obviously, from our unobjective point of view, we have never thought that the playing field was very level.

Mr. **McKernan**. Are you familiar with any other States which have been denied the right to use tax-exempt funds for any reason other than the Ford amendment?

Mr. **Pierce**. I don't know what all the justifications are of the Department, no. I really can't answer that.

Mr. **McKernan**. Are any of the other panelists familiar with that—those secondary markets that now have a mix because of a Department ruling—has it always been based on the Ford amendment or is there some other reason?

Mr. **Borden**. I know that there are several other States which do have a mix, and I think one of your people on the next panel will be able to identify those specific States to you and how that mix occurred.

In Kentucky, we are currently all tax exempt but we have a plan now before the Department which would be a combination of taxable and tax-exempt money, which if approved by the Department would set us on a course of, in effect, going out of the business as a secondary market holder, because we have reached an agreement with a regional bank where they would use their own taxable funds to provide the secondary market acquisitions in Kentucky.

In answer to the other part of your question, I am not aware of any denials of an application by any secondary market on a basis other than the Ford amendment.

Mr. **O'Toole**. Mr. McKernan, to follow up on that just very briefly, all of the other provisions of the plan for doing business have been handled since their initiation, I believe 1980, with a submission by a secondary market issuer of the assurances that the secondary market would not purchase loans at a premium or discount of more than 1 percent, that we would have an annual audit and submit that.

All of those were handled as first instance assurances which were later audited against by the independent auditor.

The amendment requiring an assurance from issuers, the intent of that, that we would not issue more than necessary to support our secondary market programs, could have been handled in the same way, although it was the Department's opinion that they could not adequately monitor that unless they handled it on a prereview basis, on a preissuance basis.

And in response to Mr. Ford's question earlier, if this provision were repealed there still are existing provisions of the Internal Revenue Code which govern, for student loan issuers as well as all other issuers, what is considered to be an overissuance of tax-exempt capacity.

So that in performing and in putting together any tax-exempt issue, the issuer must demonstrate to the satisfaction of independent tax counsel or independent bond counsel, who in turn make filings with the Internal Revenue Service, that the amount of tax-exempt financing being undertaken by that issuer is justified and warranted by the programatic purposes that the issuer—and the level of programatic activities that the issuer will engage in over the course of a 3-year period.

Mr. McKERNAN. Dick, could you elaborate on the paragraph in your testimony in which you discuss what your 3.5 percent goes for? You say 1.25 percent of that goes to pay for the cost of the funds.

Mr. PIERCE. That is what we pay to our creditor to get the funds to buy the loan. That is the cost of the money.

Mr. McKERNAN. Could you explain how these numbers would differ if you were tax exempt and what that would do to the three-quarters of 1 percent that you are left with?

Mr. PIERCE. Well, the difference would be we then would have what everybody else has had, and that is other sources of revenue from the tax-exempt bonds.

That would give us funds to operate on and enough money to keep going.

Mr. McKERNAN. Can you quantify that in any way to give us an idea what the three-quarters of 1 percent that you say you are now left with would be if you were being financed with tax-exempt funds.

Mr. PIERCE. Our operating budget is so small that really what we are talking about is only about $400,000 a year total. So, really, we operate very, very cheaply. But what we just need is that little bit of a cushion that everybody else has that we don't have. And without it, we just, you know—the figures, very simply, there, with three-quarters of 1 percent maybe we can make it, maybe. Nobody is real optimistic but we will give it a fighting shot. But when you lower that three-quarters to something less, then even I probably will have to stop batting my head against the wall at that point.

Mr. McKERNAN. What I am getting at, though, is, if you had tax-exempt funding, what would that three-quarters of a percent be? In other words, would it be 1 percent, would it be 1.25 percent? Why would that make a difference to you?

Mr. PIERCE. Well, I then would have other revenue. I would have the revenue from the bonds that you can invest part—as you are using it, you invest part of it and get interest from that to use. That is how everyone does.

Mr. McKERNAN. Since your dealings with the department of education and the denial at the end of December, what other assistance, if any, has the department given you during your first year of operation?

Mr. PIERCE. Well, they started off, I think, using a great deal of sense in saying, if in fact we are going to make you taxably financed, we are, for instance, going to see that you get your quarterly interest payment ahead of everybody else, and I think that made a lot of sense and we certainly appreciated that, because if we wait more than the 30 days we are penalized by our creditor because we can't meet our payment.

They did that for two quarters and then turned 180 degrees around and said, you are like everybody else, as far as we are concerned you can wait the 30 days, which was just a 180-degree turnaround.

So, instead of, I think, wanting to help us, they really haven't done anything. That has been our only contact with them. And, unlike everybody else, if we don't get the money from the Government, we have no other revenue with which to pay our bills. So that, in essence, we are in default of our payment that we have to make quarterly to our creditor. And that really was the only contact and I think, you know, the Department, a lot of nice people, but I really don't know that they have a great deal of concern about what happens to us.

Mr. McKERNAN. It is nice to hear that at least they are nice people.

Mr. FORD. That was his opinion.

Mr. McKERNAN. I think the record will indicate that.

What would your response be to a provision—if we do decide as a committee to lower the special allowance—to allow the 3.5 percent for either the funds which are taxable or that portion of the total funds which are taxable? We would draw a distinction for the special allowance between those funds which are tax exempt and those funds which are taxable and try to build in that cushion that you say you need.

Mr. PIERCE. Well, obviously that is something that I would like to see, and I guess I would argue that the administration's policy seems to be pushing everybody into taxable financing, and if that is the case, then those of us who are doing either all taxable financing or somebody like Larry who is doing partial taxable financing, at least on that portion of the funds as we buy student loans, would have to continue the 3.5. And, in essence, that is going to help their policy of more taxable financing.

Mr. McKERNAN. So, you think that a higher special allowance can help offset the lack of tax-exempt funds?

Mr. PIERCE. That certainly would be a helpful starting point because I think it is real clear to everybody that I have ever talked with who has looked at our operation, no matter from what perspective, at very, very best at 3.5 we are marginal, at very best.

Mr. McKERNAN. I have no further questions, Mr. Chairman. Thank you.

Mr. FORD. I have been handed a study made by the Congressional Research Service through February 1984 of the applications approved and denied. I note that the applications that were approved were all approved within 30 days.

As a matter of fact, the one very extraordinary experience, they filed on the 4th of October and were approved on the 11th of October.

And the applications denied, the time period gets strung out. But in the applications denied, the first two on the list are California, $200 million, in October 1983, and then they came back in November 1983, while that one was still pending, and asked for another $600 million. Their total outstanding through 1984 is only $200 million in the State.

Now, if you were sitting over in the Department, wouldn't it make you wonder a little bit if throughout their whole time in business they had $200 million in tax-free revenues and then they came in within a month with two applications and asked you for four times that much money all at one time?

Mr. PIERCE. Sure, it might make me wonder, but I don't know anything about that particular situation. So, I don't want to condemn without knowing about it. I do know only about my situation, where we asked for 60 and we had 40 already signed up. You know, it is such a small amount, it has always been incredible to me how that was denied.

Mr. FORD. It seems to me we have got the wrong people here at the table this morning. We really ought to have the bean counters from the Department over there to try to explain what in the world they are up to. Maybe we will get that.

I should observe that we have communicated with the Secretary on more than one occasion in writing our desire for the Department to testify during these hearings or to submit something before us, and most recently a joint letter from the ranking Republican member and me went to the Secretary saying that if you are not going to send us anything else, we have to assume that the presentation you made on the budget represents your policy recommendations.

I am assured by the post office that they did get that mail but we haven't had an answer yet. What we did get was a request, which is kind of a new one for me, from somebody in the Department to tape these hearings.

Now, since they are being transcribed, recorded and transcribed as a permanent record already, I guess they don't want to wait for that record, nor do they want to come over and be bored by sitting through them.

Is there anybody here from the Department today?

[Show of hands.]

Mr. FORD. Well, at least a couple of them get stuck with sitting here and watching this. But we will make another attempt to have them come up. I know Mr. McKernan is going to want to talk about Maine to them, to have somebody come up to try to explain to us why we are having so much trouble with the regulations and what they intend to do about it.

We don't take lightly, even though it is only Maine, we don't take lightly this sort of thing because throughout the life of this program those of us who have lived with it have tried in every possible way to facilitate access to loans and to make it possible indeed—I am the Santa Claus who took the limit out of the special allowance a few years ago, and Dave Stockman thinks I personally caused the deficit by doing that.

The administration, as you know, wants to cut that back. I think the Senate budget contemplates it will be cut back. I don't know what the Congress, in its wisdom, is going to do.

We talked to one banker and he said, well, that probably wouldn't be comfortable but it wouldn't bother us too much. We talked to another one and he said, I will get out of the program.

We don't know how much impact a cut in that allowance will have because we can't separate reality from the bankers' perceptions, and we don't want to do anything that makes it more difficult for this program to function, or more expensive for the program to function.

So, rational people would say it is time that we started talking to the right folks in the right kind of forum so that we get these things resolved and don't have this hanging over.

It is not at all comfortable for me to hear a Ford amendment of any kind quoted in a way that indicates that I have done anything, intentionally or unintentionally, that has got in the way of this program doing what it is we are trying to do.

I am not as concerned about the niceties and the bureaucratic tightness of the program as I am about whether it works, and I am not sure whether that view is shared by a great many bureaucrats, not only in the Department of Education but we have this problem in other departments, as well, who somehow feel that their role in life is to strain the construction of every word that we write up here in a way to say what they really wanted to do was put a tighter filter on this thing and not let so much money get through.

I think I would have to agree with you, as CRS points out in this study, that most of the critics that they talked to indicated they didn't believe that this was being caused by a proper interpretation of the congressional intent but by the implementation of a policy of discouraging the use of tax-free revenue bonds for all purposes by OMB.

So, you are not alone as people making that kind of an observation that can be put to something more than just simple cynicism. And we will take it to heart and see what we can find out about straightening this out.

I can't get too excited about the California situation I see here unless somebody could come in and tell me what that is all about. But I see that Utah was turned down, and I don't think that is smart, considering that we are going to have to take the reauthorization to conference with Senator Hatch. So, I have an idea it will get worked out.

For some reason it got worked out in Vermont. Now, we have to send them another copy of the players' lineup on the House and Senate side so that they figure out who Senator Hatch is. Maybe it will take care of Utah. But we will work at it.

Thank you.

Mr. Dymally, you can tell me about California.

Mr. DYMALLY. I wish I knew. I have no comment at this time. Thank you very much.

Mr. FORD. Mr. Gunderson.

Mr. GUNDERSON. Nothing.

Mr. FORD. Thank you very much, gentlemen.

The second panel is Mr. Loren Carlson, Manufacturer's Hanover Trust, and Mr. Carl Wesemann, executive officer of the Colorado Student Obligation Bond Authority.

Would you like to start, Mr. Carlson?

STATEMENTS OF LOREN CARLSON, MANUFACTURER'S HANOVER TRUST, PUBLIC FINANCE; AND CARL L. WESEMANN, EXECUTIVE OFFICER, COLORADO STUDENT OBLIGATION BOND AUTHORITY

Mr. CARLSON. Yes. Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify before you and make statements concerning tax-exempt bonds and their role in the Guaranteed Student Loan Program.

I am afraid that much of my testimony will echo the three gentlemen you have just heard but I will continue forward.

My name is Loren Carlson and I am a vice president of Manufacturers Hanover Trust Co. in New York. I represent the public finance department, which is the investment banking arm of the bank. I am primarily involved with tax-exempt revenue bonds, and since 1978 I have specialized in financing guaranteed student loans through the use of tax-exempt revenue bonds, both for direct lenders and secondary markets.

Prior to my tax-exempt bond experience I was involved in taxable Government finance as the fiscal agent for the Student Loan Marketing Association.

My comments will address both taxable and tax exempt financing. The two, in combination, are necessary to give all sectors of the market the proper liquidity.

Since the mid 1970's the term "access" has been used less frequently. Access to these loans has been achieved through tremendous growth in the participation of lending institutions.

As we in the student loan field remember, before 1976 commercial lenders were generally reluctant to enter the Federal Program and they would readily cite horror stories with respect to their attempted involvement.

In 1976 the Federal Government acted to change this. Congress initiated State involvement in the Guaranteed Student Loan Program which resulted in the establishment of State guarantee agencies on a nationwide basis.

The State guarantee agencies, in turn, encouraged the participation of small as well as large lenders throughout each of their States. This created new opportunities for the program to expand in several directions.

One key area of expansion was the creation of statewide secondary markets which were financed through the use of tax exempt revenue bonds.

The introduction of State secondary markets brought welcomed enhancements to the program. Lenders were now able to make commitments to the program through entering into agreements before they made the loans that would ensure the purchase of their loan portfolio by a secondary market.

They also knew that all loans originated would be purchased at par, or 100 cents on the dollar, regardless of average borrower size or the amount of the portfolio to be sold.

This was especially advantageous to the trade and technical schools and the 2-year academic institutions who would ordinarily be excluded because of low balance loans. Regional banks were able to service their localities instead of being overlooked because of their small portfolios.

Further, lenders were able to work out local problems with their loans on a local basis, which I believe has had a positive impact on the program.

For all these reasons, lenders were more anxious to enter the program.

In 1980 the education amendments cut the special allowance in half, resulting in a new formula for loans purchased with funds derived from tax-exempt revenue bonds. This formula provided significant savings to the Federal Government while still encouraging the growth of State secondary markets and the attendant larger student participation in the Guaranteed Student Loan Program.

During the past 5 years the combination of taxable and tax exempt entities has had a positive impact on our program. More aggressive pricing and improved servicing capabilities have been the byproduct of this competition. Through this 5-year period we have had great economic difficulty in the country. Nevertheless, the access to student loans remained at a high level.

In 1983 the Student Loan Consolidation and Technical Amendments were introduced which defined several considerations that must be addressed in a plan for doing business filed with the Secretary of Education.

In order to receive the special allowance payments on those loans purchased with tax-exempt funds, an approval of the Secretary must be received.

Mr. Chairman, I believe the intent of the 1983 amendments was positive for tax-exempt bond business as it attempted to govern the planning of State secondary markets and to monitor potential abuses that might not effectively be restricted by the Department of the Treasury.

However—and I will not read part G of your amendment over again—some problems have been caused.

The important part, I think, of this section is the last part, which says, "after taking into account existing sources of student loan credit in that area".

This has brought tax-exempt financing to their knees.

In the Department of Education's attempt to determine the availability of all sources of credit, State secondary markets have been pressed to locate information almost impossible to obtain.

For example, a recent request of this type sought the determination of how many loans the lenders in certain areas were going to hold throughout repayment.

For a secondary market, this is very, very difficult because with competitive secondary markets in the area and increasing liquidity of the student loan programs, the ability for a secondary market to get a lender to project their asset policy over the next 10 to 15 years is asking quite a bit.

In connection with this, however, I do applaud the Department of Education in their final regulations as they quantified many of these requirements that they had been asking under the ad hoc regs.

Although many of my comments and concerns were incorporated into the final regulations, further refinement is necessary.

A primary area of concern is the treatment of refunding bonds. Refunding bonds are those bonds which are used to refinance existing bond issues where the original issue did not have a final maturity which matched the portfolio of student loans.

Presently, under the new plan for doing business, State secondary markets cannot refund their outstanding issues unless they are within 6 months of maturity and they can also prove reasonable need for the refunding issue.

Many State secondary markets are now being forced into disadvantageous situations because of restricted ability to refund issues.

I therefore suggest that the refunding issues be solely regulated through the Department of Treasury since refundings are of a purely financial nature.

The new plan for doing business requirements have severely cut back on the ability of State secondary markets to finance their activities and, in turn, I believe it will reduce the access to guaranteed student loans.

Several of these State secondary markets and direct lenders are working with the financial community to develop methods to finance their programs through taxable instruments. Not all entities will be able to finance on a taxable basis because of smaller margins as compared to tax exempt financing.

All entities should approach taxable financing with great caution. There are greater risks that must be considered when entering this market. At least, the State secondary markets should add sophisticated financial personnel to assist them in monitoring a much more volatile marketplace.

Some of the considerations that I believe State secondary markets must look at in entering the taxable market are:

No. one, having proper control of their servicing cost as it relates to average borrower indebtedness;

No. two, the knowledge of the movements of the money markets, to maintain a margin in order to properly service their debt obligations;

No. Three, an awareness of corporate securities laws, if they decide to go outside of Sallie Mae;

And No. four, with all this, their ability to still assist lenders with small portfolios and low balance loans.

The student loan marketplace is very large, with over $7 billion in new loans guaranteed this past year. The taxable secondary markets are constantly expanding and developing creative new financing alternatives.

The tax exempt marketplace is serving a public purpose by maintaining consistency with all lenders involved in all types of postsecondary institutions. There is room for both secondary markets in the Guaranteed Student Loan Program.

In summation, I would like to offer some recommendations for the purpose of maintaining a strong financial network for the Guaranteed Student Loan Program.

No. 1, tax-exempt secondary markets should remain as a vehicle to assure access on a consistent basis.

No. 2, during this process of reauthorization of the Higher Education Act, changes in the nature of the Guaranteed Student Loan Program should be carefully considered so as not to harm the aggressive program participation of taxable secondary markets and taxable lenders.

No. 3, with both taxable and tax-exempt revenue bonds as vehicles for financing secondary markets, commercial banks who have been the largest supports and underwriters of tax-exempt revenue bonds in the guaranteed student loans should also be given the opportunity to underwrite bonds on a taxable basis.

No. 4, the Deficit Reduction Act of 1984 has defined a student loan revenue bond as an industrial development bond, which places it under the cap of $150 per capita within the State, or $200 million, whichever is greater.

I support H.R. 1624, introduced on March 20 by Congressman Kolbe of Arizona, which removes student loan revenue bonds and pollution control bonds from the per capita limitations.

However, if this bill is not successful, the individual States should be given the authority to determine need for guaranteed student loan dollars within their own States and not be restricted by the Department of Education's approval process.

No. 5, part E and part G of the 1983 amendments possibly should be removed. These sections onerously require State secondary markets to examine all sources of credit to the extent of compromising their competitive position. This has led to misunderstandings and subjectiveness in the plan for doing business approval process and has taken away from the regulatory intent of Congress.

I believe that secondary markets have played a major role in the Guaranteed Student Loan Program. Both taxable and tax exempt financings are needed in the future to maintain proper liquidity to all lenders who want the ability to serve their marketplace and the needs of the community.

Again, I appreciate the opportunity to appear before the subcommittee, and I would be happy to answer any questions you might have.

[The prepared statement of Loren D. Carlson follows:]

Prepared Statement of Loren D. Carlson, Vice President, Public Finance Department, Manufacturers Hanover Trust Co.

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify before you and make a statement concerning tax-exempt bonds and their role in the Guaranteed Student Loan Program [GSLP]. My name is Loren Carlson and I am a Vice President of Manufacturers Hanover Trust Company located in New York. I represent the Public Financing Department which is part of the investment banking arm of the Bank. I am primarily involved with student loan revenue bond issues. Since 1978, I have specialized in financing Guaranteed Student Loans through the use of tax-exempt revenue bonds, working with both direct lenders and secondary markets issuers. Prior to my tax-exempt bond experience, I was involved with taxable government finance as the Fiscal Agent for the Student Loan Marketing Association. My comments will address both taxable and tax-exempt financing. The two, in combination, are necessary to make the program work.

Since the mid 1970's the term "access" has been used less frequently. Access to these loans has been achieved through tremendous growth in the participation of lending institutions. As we in the student loan field remember, before 1976 commercial lenders were generally reluctant to enter the federal program and many would readily cite horror stories with respect to their attempted involvement. From the point of view of lenders, the cost of administering the federal program was prohibitive.

In 1976, the federal government acted to change this. Congress initiated state involvement in the Guaranteed Student Loan Program, which resulted in the establishment of state guarantee agencies on a nationwide basis. The state guarantee agencies, in turn, encouraged the participation of small as well as large lenders throughout each of their states. This created new opportunities for the program to expand in several directions. One key area of expansion was the creation of statewide secondary markets which were financed through the use of tax-exempt revenue bonds. The introduction of state secondary markets brought several welcome enhancements to the program. Lenders were now able to make their commitments to the program through entering into agreements that would ensure the purchase of their loan portfolio by the secondary market. They knew that all loans originated would be purchased at par, or 100 cents on the dollar, regardless of average borrower size or amount of portfolio to be sold. This was especially advantageous to the Trade and Technical Schools and two-year academic institutions which would ordinarily be excluded because of low balance loans. Regional banks were able to service their localities instead of being overlooked because of small portfolios. Further, lenders were able to work out local problems with their loans on a local basis, which I believe has had a positive impact on the program. For all of these reasons, lenders were more anxious to enter the program.

In the 1980 education amendment, Congress cut the special allowance in half, resulting in a new formula for loans purchased with funds derived from a tax-exempt bond issue. This new formula provided significant savings to the federal government while still encouraging the growth of state secondary markets and the attendant larger student participation in the Guaranteed Student Loan Program. During the past five years, the combination of taxable and tax-exempt entities has had a positive impact on the Guaranteed Student Loan Program. More aggressive pricing and improved servicing capabilities have been the by-product of such competition. This was a period of great economic difficulty in the country, nevertheless, the access to student loans remained at a high level.

In 1983 the Student Loan Consolidation and Technical Amendments were introduced which defined several considerations that must be addressed in a "Plan for Doing Business" filed with the Secretary of Education. In order to receive the special allowance payments on those loans purchased with tax-exempt funds, an approval from the Secretary must be received. I believe that the intent of the 1983 Amendment was positive for the tax-exempt revenue bond business as it attempts to govern the planning of state secondary markets and to monitor potential abuses that might not be effectively restricted by the Department of the Treasury.

However, Section 7(d)(1)(G) of the 1983 Amendment which states that "(G) the Authority will not issue obligations for amounts in excess of reasonable needs for student loan credit within the area served by the Authority, after taking into account existing sources of student loan credit in that area," has brought the tax-exempt funding mechanism to its knees.

In the Department of Education's attempt to determine the availability of all sources of credit (Part E of the Technical Amendment Act), state secondary markets have been pressed to locate information almost impossible to obtain. For example, a recent request of this type sought the determination of how many loans the lenders in a certain area were planning to hold throughout repayment. In a period of competitive secondary markets and a broadening liquid market for student loans, no lender can project asset management over the next ten to fifteen years. In connection with this, I applaud the Department of Education for quantifying many such requirements in the final regulations published by the Department February 8, 1985.

Although many of the comments and concerns were incorporated into the final regulations, further refinement is necessary. A primary area of concern is the treatment of refunding bonds. Refunding bonds are those bonds sold to refinance an existing bond issue, when the original issue did not have a final maturity matching the term of a student loan portfolio. Presently, under the new "Plan for Doing Business", state secondary markets cannot refund their outstanding issues unless they are within six months of maturity and they can prove reasonable need for the refunding issue. Many state secondary markets are now being forced into disadvantageous situations because of restricted ability to refund issues. I, therefore suggest that the refunding issues be solely regulated through the Department of Treasury since refunding issues are of a purely financial nature.

The new "Plan for Doing Business" requirements have severely cut back on the ability of State secondary markets to finance their activities and, in turn, will reduce access to the Guaranteed Student Loan Program. Several of these secondary markets and direct lenders are working with the financial community to develop methods to finance their programs through taxable instruments. Not all entities will be able to finance on a taxable basis because of the smaller margins as compared to tax-exempt financing. All entities should approach this new area with caution. There are greater risks that must be considered when entering the taxable market, and at least, the state secondary markets should add sophisticated financial personnel to their staffs to monitor changes in a volatile market environment. Some of the considerations that state secondary markets must address are: (1) having proper control of servicing cost as it relates to average borrower indebtedness; (2) the knowledge of movements in the money markets, to maintain a margin in order to properly service the debt obligation; (3) awareness of corporate securities laws; and (4) the ability to assist lenders with small portfolios and low balance loans. The student loan market place is very large with over $7 billion new loans guaranteed this past year. The taxable secondary markets are constantly expanding and developing creative financing alternatives. The tax-exempt market place is serving a pubic purpose by maintaining consistency with all lenders involved in all types of post-secondary institutions. There is room for both types of secondary markets in the Guaranteed Student Loan Program.

Mr. Chairman, in summation, I would like to offer some recommendations for the purpose of maintaining a strong financial network for the Guaranteed Student Loan Program:

(1) Tax-exempt state secondary markets should remain as a vehicle to assure access on a consistent basis.

(2) During the process of reauthorization of the Higher Education Act, changes in the nature of the Guaranteed Student Loan Program should be carefully considered so as not to harm the aggressive program participation of taxable secondary markets or lenders.

(3) With both taxable and tax-exempt revenue bonds as vehicles for financing secondary markets, commercial banks who have been the largest supporters and underwriters of tax-exempt capital in Guaranteed Student Loans should also be given the opportunity to become underwriters on a taxable basis.

(4) The Deficit Reduction Act of 1984 has defined a student loan revenue bond as an industrial development bond which places a cap on issuance in the amount of $150 per capital within the state, or $200 million, whichever is greater. I support HR 1624, introduced on March 20 by Congressman Kolbe of Arizona, which removes student loan revenue bonds and pollution control bonds from the per capita limitations. However, if this Bill is not successful, the individual states should be given the authority to determine need for Guaranteed Student Loan dollars within their own states and not be restricted by the Department of Education's approval process.

(5) Part E and Part G of the 1983 Amendments should be removed. These Sections onerously require state secondary markets to examine all sources of credit to the extent of compromising their competitive position. This has led to misunderstandings and subjectiveness in the "Plan for Doing Business" approval process and has taken the regulation away from Congressional intent.

I believe that secondary markets have played a major role in the Guaranteed Student Loan Program. Both taxable and tax-exempt financings will be needed in the future to maintain proper liquidity of all lenders who want the ability to serve their market place and the needs of the community.

Again, I appreciate the opportunity to appear before the Subcommittee, and I would be happy to answer any questions you may have.

Mr. FORD. Thank you.

Mr. Wesemann.

Mr. WESEMANN. Thank you, Mr. Chairman, members of the committee. My name is Carl Wesemann. I am the executive officer of the Colorado Student Obligation Bond Authority.

The authority is the State level secondary market operating in Colorado.

Along with my colleagues, I am deeply appreciative of the opportunity to appear before you, and I hope you find my views of some value in your determination of a very serious consideration in the reauthorization of legislation concerning higher education in the United States.

The purpose of my testimony is intended to cover two rather broad areas of information.

One is to provide a brief backdrop of the legislative history of the congressional considerations of tax-exempt financing and the concomitant growth of State level secondary markets and direct lending operations.

Second, I also would like to address the threshold issue of, do State level secondary markets perform a worthwhile function in the process of providing access to higher education at a minimum cost to the Federal Government.

In light of the previous testimony, with your permission, Mr. Chairman, I will simply highlight the first part of my testimony that has been submitted in writing.

The Congress has examined in detail the use of tax-exempt student loan revenue bonds and the relationship between Sallie Mae and issuers of tax-exempt student loan revenue bonds in considerations leading to the Education Amendments of 1980.

A review of the Education Amendments of 1980 and the legislative history related thereto indicates Congress not only supported the continued use of tax-exempt student loan revenue bonds but also sought to avoid the unnecessary intrusion by Sallie Mae into the provisions of student loan credit by issuers of such bonds.

One of the major changes in the program accomplished by the Education Acts of 1980 was the reduction of the special allowance paid to issuers of tax-exempt bonds to one-half that amount paid to commercial lenders.

Also, the requirement for a plan of doing business was added on the Senate floor.

To be eligible to receive this reduced special allowance, the authority shall submit to the Secretary a plan of doing business and the Secretary shall approve or disapprove such plan within 30 days after the date of its submission.

Each plan shall contain provision designed to assure that, amongst other things that the chairman has mentioned, the authority has a plan under which the authority will pursue the development of new participation in a continuing program of benefits to students together with assurances of existing lender commitments to the program.

Thus, it seems by this requirement of the plan of doing business in 1980, the Congress seemed to recognize and encourage a unique ability of State level secondary markets to affect their local geographic region.

Also as a part of the Education Amendments of 1980 Congress provided for the ability for Sallie Mae to become a direct lender of student loans where it was deemed necessary.

However, the Congress also directed that this activity of direct lending cease whenever the implementation inhibited the formation of an agency or agencies which have the responsibility for developing local sources of funds for student loans.

In spite of the indepth examination of the Higher Education Act of 1980, there were additional changes in 1981.

However, prior to the enactment of the 1981 Education Amendments, the administration recognized the importance of a proper balancing of Sallie Mae's activities with issuers of tax-exempt student loan revenue bonds introduced by the Congress earlier.

In 1981 the administration proposed eliminating Sallie Mae's access to the Federal Financing Bank, noting that GSL volume was at record levels, State agencies provide secondary markets for student loans, and therefore stimulation by Sallie Mae is unnecessary.

The conference report on the 1981 Education Amendments provided that the House bill and the Senate amendment grant various new authorities to Sallie Mae in that Sallie Mae would be authorized to deal in obligations issued by State agencies or eligible lenders.

They also indicated that it was their intent that the authority be given only on a standby basis, and that under no circumstances is this ability to diminish the strengths and viabilities of new or existing State guarantee or nonprofit agencies.

Moving on to 1983, Congress made really no substantive changes other than specifying that issuers of tax-exempt student loan revenue bonds must not engage in certain discriminatory practices, and added section 438(d)(1)(g).

In the section-by-section analysis portion of the 1983 House report, the committee described the purpose of section 7 and summarized each required provision of the plan for doing business except the new requirement requiring the establishment of available student loan credit.

Along with my colleagues, Mr. Chairman, I do not share the opinion that your statement supports the drastic policy changes implemented by the Department of Education. And even if it did, as spelled out in the National Association of Bond Lawyers comments and recommendations on the Department of Education's notice of proposed rulemaking in 34 CFR 682, it seems to not be a long established legal precedence.

There is also history, however, in the Internal Revenue Code. The principal provisions of the Internal Revenue Code and regulations promulgated thereunder which affect issues of tax-exempt bonds and the use of the proceeds and revenues relating thereto were in effect prior to 1980.

However, again Congress readdressed the issuance of tax-exempt student loan revenue bonds in TEFRA. There they added the provision to section 103 of the Internal Revenue Code requiring tax-exempt student loan revenue bonds to be issued or to be registered to be tax exempt.

Thus, there does seem to be a considerable legislative history concerning the financing and operating of State level secondary markets and direct lenders, albeit in both education and tax legislation.

Because of the principal provisions of both the Internal Revenue Code and the Higher Education Act and the regulations thereunder that affect the organization, operation and eligibility of issuers of tax-exempt student loan revenue bonds, the Congress is requested to clarify its intent as to the interrelation of the Department of Education and the Department of the Treasury.

In particular, it seems, Congress should make clear its intention that the Department of Education not act as a body of legal and financial review and approval over the decisions of issuers of tax-exempt student loan revenue bonds and their counsel.

Specifically, determinations by such issuers to enter into complicated and sophisticated financing transactions and such counsel's conclusions in matters of Federal, State, and local law should, I think, remain outside the purview of the Department of Education.

Further, as a specific recommendation, in answer to one of your previous questions, Mr. Chairman, it seems that if the Secretary would recognize bona fide contracts between lenders and State level secondary markets as prima facie evidence of demand for access by borrowers, things might progress more smoothly.

Also, because action by the Treasury Department can so dramatically affect the financing of programs desired by the Congress, more oversight should be established and maintained.

Specifically, current changes being considered in arbitrage law could totally remove feasibility of tax-exempt financing, and thus completely remove this source of funding to provide access to higher education desired by the Congress.

Last, and I think this is a key point, the Treasury Department's analysis of the desirability of taxable versus tax-exempt financing for student loans should be drastically affected or could be drastically affected by tax legislation currently being considered.

In particular, the reduction of the marginal tax rates could reverse the original finding of the Treasury Department, and I think revisiting of this study in light of tax legislation likely to be enacted or if it is enacted must not be overlooked.

So, with this as general background, how did the authority grow in Colorado during this same general period of time?

The authority was created by Colorado Senate bill 52 in 1979 as a political subdivision and corporate body. This same legislation also created the Colorado Guarantee Agency, officially known as the student loan division of the Colorado Department of Higher Education.

Together, these two organizations were charged with the creation, administration, and operation and financing of the Guaranteed Student Loan Program in Colorado.

Why in 1979 did the Colorado Legislature create the authority?

There were several reasons. First, lenders were ceasing to disburse funds under the Federally Insured Student Loan Program, the FISL Program, because of the myriad problems being experienced with that program, and this created a lack of access to the student loan form of financial aid in the State.

Second, the State legislature saw a need for a wide network of direct lenders to ensure uniform access to student loans, one that would ensure that the resident of Burlington, CO, a rural agricultural community close to the Kansas border, would have equal access to a student loan as would a resident of Paonia, CO, a coal mining town on the western slope.

Last, these lenders expressed a need for a liquidity source to enter the GSL or the Guaranteed Student Loan Program.

This need for liquidity arose from a limited capital base at individual lenders and second, a realization that student loans are low balance loans and thus servicing expenses are higher in relation to other alternative capital uses when the student loan goes into repayment.

Congress, of course, realized these things on a national level when they created Sallie Mae as the national secondary market.

Thus, it seems the real question of the secondary market is not whether it is a necessary function, but how it should be performed, and there seem to be three alternatives: the national level only, that is, Sallie Mae or a national student loan structure; a State level; or both organizations.

My answer has been and continues to be that the last alternative is the best alternative, because this approach allows the forces of competition to create the best services for lenders, students, and schools.

Keeping a broad network of lenders in the GSL Program ensures maximum, uniform access, a basic congressional tenet.

It also appears that the implementation of the local money for local borrowers concept will allow for a much better debt management function than would exist in a highly concentrated distribution system.

And last, but not unimportant, are alternative accesses to sources of capital to fund this industry.

In 1979 and 1980 there was no active State level secondary market for the GSL Program in Colorado. Sallie Mae had, however, signed contracts with several large lenders in the State. And while there were some differences between the various contracts, generically, the conditions for a par purchase were a minimum portfolio size of $100,000 and an average account size of at least $4,000.

Of course, the loans could not be in repayment, and if these conditions were not met, then loans would be purchased at a negotiated discount.

These conditions obviously made it difficult for smaller lenders or new lenders to participate in the Student Loan Program with guaranteed liquidity. However, in spite of this, many lenders did become eligible in Colorado and the reason that they did this was that they took this action based on a promise of a State level secondary market becoming active with no minimum loan size or portfolio requirements.

In 1981 the authority was successfully funded and began purchasing loans guaranteed by the Colorado Guarantee Agency. As promised, there was no portfolio size or loan size requirements.

In addition, the authority initiated a program to purchase loans in repayment. In fact, we accomplished one purchase of $5 million of repayment loans with a lender who had an existing current contract with Sallie Mae but could not sell under that contract because the loans were in repayment, obviously a service to that lender.

From 1981 to the present both the authority and Sallie Mae have been active secondary markets in the State and during this period of time the conditions under which Sallie Mae would purchase loans have slowly been relaxed until currently they purchase loans with no minimum portfolio size or average loan size, and also will purchase loans in repayment from certain lenders. And they are active with the smaller lenders in the State.

Currently the authority has $241.4 million of outstanding bonds payable. Of that amount, in excess of $160 million has been expended to purchase student loans from approximately 120 lenders.

The remaining amount will be expended in student loan purchases between now and September 1986 on a contracted acquisition schedule.

The student loan portfolio of the authority represents approximately 26 percent of the outstanding amount of student loans guaranteed in the State.

The local money for local borrowers concept also seems to work well in the collection area. The default rate on the authority's portfolio is less than 5 percent.

In a recent publication, the guarantee agency reported a statewide default rate that was higher than that.

From this, it is concluded that we are doing a good job of servicing and collecting in the State of Colorado, as compared with the other holders of guaranteed loans in the State.

Also, in comparison with the FISL experience, it is my opinion that the current organization of State level secondary markets will continue to do a better job of collecting than would a national student loan bank type of structure.

Thus, I think the evidence is ample that the competitive process that Mr. Ed Fox, president of Sallie Mae, so heartily endorsed in a speech before the recent National Council of Higher Education Loan Programs conference, I think that this competition is alive and well in the State.

The authority has participated actively in the development of the position paper on reauthorization provided to you by the National Council of Higher Education Loan Programs, and these recommendations are heartily supported and are recommended for your serious consideration.

One of the recommendations is of special sensitivity to secondary markets, and that is the issue of loan consolidation.

Sole sourcing this to Sallie Mae, as was done with the now Defunct Options Program, which was a good program at the time, would be an unfair competitive advantage for an already much larger organization.

By disallowing secondary markets, State-level secondary markets, a method by which their average loan size can be increased, they are thereby kept further and further out of the arena of feasibility for taxable financing.

Thus, the link between including State-level secondary markets in the loan consolidation process and taxable financing feasibility is a very strong one.

Second, it is my opinion that reducing the total return on student loans from the current level of Treasury bill plus 3.5 will, if not immediately, in the longrun drastically reduce the number of direct lenders across the Nation. I think this would have a deleterious affect upon the Student Loan Program.

In summary, although the types of entities which provide secondary markets and direct lending services at the State level vary greatly, all of them have a responsibility to prudently operate their programs and are answerable to the citizens of the area in which they operate.

Mr. Chairman, thank you very much for the opportunity to appear before you and make this statement.

[The prepared statement of Carl L. Wesemann follows:]

PREPARED STATEMENT OF CARL L. WESEMANN, EXECUTIVE OFFICER, COLORADO STUDENT OBLIGATION BOND AUTHORITY

I. INTRODUCTION

Mr. Chairman, members of the committee, my name is Carl Wesemann. I am the Executive Officer of the Colorado Student Obligation Bond Authority ("Authority"). The Authority is the state level secondary market operating in the State of Colorado. The opportunity to appear before your committee is deeply appreciated and it is my sincere hope that you find my views of some value in your deliberations concerning the reauthorization of legislation affecting higher education in the United States.

II. PURPOSE OF THE TESTIMONY

This testimony is intended to cover two broad areas of information.

Provide a backdrop of the legislative history of Congressional considerations of tax-exempt financing and the concomitant growth of state level secondary markets and direct lenders.

Address the question: Do state level secondary markets perform a worthwhile function in the process of providing access to higher education at a minimum cost to the federal government?

III. LEGISLATIVE BACKGROUND

A. Educational amendments of 1980.—Congress has examined in detail the use of tax-exempt student loan revenue bonds and the relationship between Sallie Mae and issuers of tax-exempt student loan revenue bonds in providing student loan credit in connection with the enactment of the Education Amendments of 1980. A review of the Education Amendments of 1980 and the legislative history related thereto indicates Congress not only supported the continued use of tax-exempt student loan revenue bonds, but also sought to avoid unnecessary intrusion by Sallie Mae into the provisions of student loan credit by issuers of such bonds.

One major change to the program accomplished by the Education Acts of 1980 was the reduction of special allowance paid to issuers of tax-exempt bonds. The 1980 Senate Report described the change as follows:

"One major change made by the committee bill concerns the rate of return paid to holders of loans which were made or purchased with the funds obtained from the issuance of tax-exempt obligations. The past few years have seen substantial increase in the issuance of tax-exempt bonds for student loan purposes. These bonds are often issued at interest rates significantly lower than commercial rates, since they are state obligations or otherwise qualified for tax-exempt status. However, special allowance paid on such bonds has been identical with that paid commercial lenders, an allowance which reflects the commercial cost of money. As a result, unforeseen amounts of special allowance have been paid to holders of loans resulting from tax-exempt issuance, providing a return for an excess of the cost of administration or the cost of obtaining the capital. The Committee bill seeks to prevent this windfall by limiting the special allowance on loans made or purchased by tax-exempt funds to one-half the regular special allowance paid to commercial lenders. This figure has been estimated by the congressional budget office to provide an adequate rate of return on such loans, commensurate with the cost of administration of such loans. In order to provide a measure of stability in return to bond holders, the committee bill provides the rate of special allowance set for such holders shall not be less than one-half of one percent."

Also, the requirement for a plan of doing business was added on the Senate floor. Senator Pell, on behalf of Senator Bentsen, proposed unprinted Amendment 1270 which added language requiring the provision for a plan of doing business which was substantially the same language adopted as Section 420(b) of the Education Amendments of 1980. This section which, with certain additions, later became Section 438(d) of the Higher Education Act provided that:

In order for the holders of loans which were made or purchased with funds obtained by the holder from an Authority issuing obligations, the income from which is exempt from taxation under Title 26, to be eligible to receive a special allowance under Section 1087-1(b)2(d) of this title, the Authority shall submit to the Secretary a plan for doing business. The Secretary shall approve or disapprove such a plan within 30 days after the date of its submission. Each plan shall contain provisions designed to assure that—

(1) No eligible lender in the area served by the Authority will be excluded from participation in the program of the Authority and that all eligible lenders may participate in the program on the same terms and conditions if eligible lenders are going to participate in the program;

(2) No director or staff member of the Authority who receives compensation from the Authority may own stock in or receive compensation from any agency that would contract to service or collect the loans of the Authority;

(3) Student loans will not be purchased from participating lenders at a premium or discount amounting to more than one percentum of the unpaid principal amount borrowed plus accrued interest to the date of acquisition, but a reasonable loan transfer fee may be paid by the purchaser;

(4) The Authority will, within the limits of funds available and subject to applicable state and federal law, make loans to, or purchase loans incurred by, all eligible students who are residents of, or who attend an eligible institution within, the area served by the Authority;

(5) The Authority has a plan under which the Authority will pursue the development of new participation in a continuing program of benefits to students together with assurances of existing lender commitments to the program; and

(6) There will be an annual audit of the Authority by a certified public accounting firm which will include review of compliance by the Authority with the provisions of the plan.

By requiring a plan to pursue new lender participation and assure exisiting lender commitments, Congress seemed to recognize and encourage a unique ability of state level secondary markets to affect their local geographic region.

Also as part of the Education Amendments of 1980, Congress provided for the further study of tax-exempt and taxable financing of student loan credit in the Education Amendments of 1980 and carefully balanced the use of Sallie Mae financing and tax-exempt financing for areas that experience shortages of student loan capital. Congress considered Sallie Mae's financing of student loan capital as an alternative to tax-exempt student loan revenue bond financing. The ability for Sallie Mae to become a direct lender of student loans was granted through the introduction of Section 439(q) which provides, in part, that:

(3) (Sallie Mae) or its designated agents shall cease making loans under this part in any state at such time it is determined by the Secretary, with regards to loans made under Paragraph (1) or by any party to the agreement required by Paragraph (2), that—

(A) The conditions which caused the implementation of this subsection have ceased to exist; or

(B) The implementation of this subsection has either

(i) further reduced the availablity of loans from other sources in the applicable geographical area, or

(ii) *inhibited the formation in a state or agency which* would have an agreement pursuant to Section 1078(b) of this little which would *have the responsibility for developing local sources of funds for student loans.* (Emphasis added).

B. Post Secondary amendments of 1981 ("The 1981 Education Amendments").—In spite of the in depth examination of the Higher Education Act in 1980, there were additional changes in 1981. However, prior to the enactment of the 1981 Education Amendments, the Administration recognized the importance of a proper balancing of Sallie Mae's activities with issuers to tax-exempt student loan revenue bonds introduced by the Congress earlier. In 1981 the Administration proposed eliminating Sallie Mae's access to the Federal Financing Bank, noting that GSL volume was at record levels, state agencies provide secondary markets for student loans, and therefore "stimulation by Sallie Mae is unnecessary". *America's New Beginning; A Program for Economic Recovery* (February 18, 1981).

The conference report on the 1981 Education Amendment provided that:

[t]he House Bill and Senate Amendment grants various new authorities to [Sallie Mae]—(3) Sallie Mae is authorized to deal in obligations issued by state agencies or eligible lenders—

The Conferees intent was that the authority given Sallie Mae is only stand-by authority.

[With respect to Sallie Mae's new authority to make loans under certain circumstances, the] Conferees wish to emphasize the stand-by nature of Sallie Mae's new authority—This stand-by authority is to be exercised only in states where there is no state guarantee or non-profit agency (or the agency is either unable or unwilling to make/insure student loans) or students are unable to obtain student loans. The Conferees believe that this stand-by authority is necessary to ensure that loans are available to all eligible borrowers, regardless of geographic location. *Under no circumstances is this amendment to diminish the strengths and viabilities of new or existing state guarantee or non-profit agencies.* (Emphasis added).

C. Student Loan Consolidation Technical Amendments Act of 1983.—Section 7 of the 1983 Amendments repealed Section 420(b) of the Education Amendments of 1980 and incorporated substantially the same provision into the Higher Education Act as Section 438(d). Congress made no substantive changes to Section 420(b) other than specifying that issuers of tax-exempt student loan revenue bonds must not engage in certain discriminatory practices and added Section 438(d)(1)(g).

In the section-by-section analysis portion of the 1983 House Report, Committee described the purpose of Section 7 and summarized each required provision of the plan for doing business except the new requirement regarding the establishment of available student loan credit. The statement inserted into the Congressional Record by Congressman Ford was later proported as the basis of the major policy shift by the Department of Education.

In my opinion, Congressman Ford's statement does not support the drastic policy changes implemented by the Department of Education. Even if it did, however, the Department of Education's use of Congressman Ford's statement to support such an interpretation is contrary to well established legal precedents. (See the National Association of Bond Lawyer's comments and recommendations on the Department of Education Notice of Proposed Rulemaking of 34 CFR Part 682, 49 Fed. Reg. 5330 (Feb. 10, 1984)).

D. Internal Revenue Code.—The principal provisions of the Internal Revenue Code and the regulations promulgated thereunder, which affect issues of tax-exempt student loan revenue bonds, and the use of the proceeds and revenues relating to such bonds were in effect prior to 1980. However, Congress again addressed the issuance of tax-exempt student loan revenue bonds in TEFRA.

In TEFRA, Congress added provisions to Section 103 of the Internal Revenue Code requiring tax-exempt student loan revenue bonds (together with other tax-exempt obligations to be in registered form to be tax-exempt student, I.R.C. Paragraph 103(j), in requiring issuers of tax-exempt student loan revenue bonds to file information returns with the Treasury Department regarding the amount, terms, and use of the proceeds. I.R.C. Paragraph 103(I).

Thus, there is considerable legislative history concerning the financing and operations of state level secondary markets and direct lenders albeit in both education and tax legislation. Because the principal provisions of both the Internal Revenue Code and the Higher Education Act and the regulations promulgated thereunder affect the organization, operation, and eligibility of issuers of tax-exempt student loan revenue bonds, Congress should clarify its intent as to the inter-relation of the Department of Education and the Department of Treasury. In particular, Congress should make clear its intention that the Department of Education not act as a body of legal and financial review and approval over the decision of issuers of tax-exempt student loan revenue bonds and their counsel. Specifically determinations by such issuers to enter into complicated and sophisticated financing transactions and such counsel's conclusions on matters of federal, state and local law should remain outside the purview of the Department of Education. Further, Congress is requested to provide guidance to the Secretary of Education to recognize a bona fide contract between a lender and a state level secondary market as prima facie evidence of demand for access by borrowers.

Also, because action by the Treasury Department can so dramatically affect the financing of programs desired by the Congress, more oversight should be established and maintained. Specifically, current changes in arbitrage law could totally remove feasibility of tax-exempt financing, thus completely removing this source of funding to provide the access to higher education desired by the Congress.

Lastly, the Treasury Department's analysis of the desirability of taxable versus tax-exempt financing for student loans will be drastically affected by tax legislation; in particular, the reduction of marginal tax rates could reverse the original findings. Revisiting this study should not be overlooked.

With all this as general background, let's now turn our attention to how the Colorado state level secondary market was created and grew in the environment outlined above.

IV. HISTORY AND PROGRESS

The Authority was created by Colorado Senate Bill 52 in 1979 as a political subdivision and body corporate. This same legislation created the Colorado Guarantee Agency. Officially, the Guarantee Agency is known as the Student Loan Division of the State Department of Higher Education. Together, these two organizations were charged with the creation, administration, operation and financing of the Guaranteed Student Loan Program in Colorado.

Specifically, the Authority was charged to "assist residents in meeting the expenses incurred in availing themselves of higher educational opportunities." This charter is met by financing and operating a secondary market for student loans as well as developing and operating as a direct lender in the PLUS Program.

Why, in 1979, did the Colorado Legislature create the Authority? There were several reasons. First, lenders i.e., commercial banks, savings and loans, and credit unions were ceasing to disburse Federally Insured Student Loans (FISL) because of the myriad problems with that program. This created a lack of access to the student loan form of financial aid in the State. Secondly, the State legislature saw a need for a wide network of direct lenders to ensure uniform access to student loans. This would ensure that a resident of Burlington, Colorado; a rural, agriculture community close to the Kansas border, would have equal access to a student loan as would a resident of Paonia, Colorado; a coal mining town on the western slope. Lastly, these lenders expressed a need for a liquidity source to enter the GSL program.

This need for a liquidity source or a secondary market arises from a limited capital base at individual lenders, and secondly a realization that student loans are low balance loans and thus servicing expenses are higher in relation to other alternative capital uses when the student loans are in repayment. Congress realized these needs for a secondary market when they created Sallie Mae.

Thus, it seems the real question is not if this is a necessary function, but how it should be performed? There are three alternatives:

1. National level only (Sallie Mae);
2. State level only; and
3. Both.

My opinion has been and remains that the last alternative is the best alternative. This approach allows the forces of competition to create the best services for lenders, students, and schools. Keeping a broad network of lenders in the GSL program ensures maximum, uniform access to student loans—a basic congressional tenet. It also appears that the implementation of the "local money for local borrowers" concept will alow for much better debt management and planning than would exist in a highly concentrated, narrow, production-like, distribution system. Last, but not inimportant, are alternate accesses to sources of capital to fund the industry.

In 1979 and 1980, there was no active state level secondary market for the Guaranteed Student Loan Progam in the State of Colorado. Sallie Mae had, however, signed contracts with several large lenders in the state. While there were some differences in the various contracts, generically, the conditions for a par purchase were: a minimum portfolio size of $100,000 and an average account size of at least $4,000. Of course, the loans could not be in repayment. If these conditions were not met, loans were purchased at a negotiated discount.

These conditions obviously made it difficult for smaller lenders or new lenders to participate in the student loan program. In spite of this, many smaller lenders did become eligible lenders in the Colorado Guaranteed Student Loan Program. This action was taken based on the promise of a state level secondary market becoming active with no minimum loan size or portfolio requirements.

In 1981, the Authority was successfully funded (suprisingly, with the assistance of Sallie Mae through the provisions of a take-out agreement whereby sallie Mae agreed to buy loans if refinancing could not be achieved) and began purchasing loans guaranteed by the Colorado Guarantee Agency. As promised, there were no portfolio size or loan size requirements. In addition, the Authority inititiated a program to purchase loans in repayment. One purchase of $5 million in repayment loans was accomplished with a lender who had an existing current contract with Sallie Mae but could not sell because the loans were in repayment.

From 1981 to the present, both the Authority and Sallie Mae have been active secondary markets in the State of Colorado. During this period of time, the conditions under which Sallie Mae would purchase student loans were slowly relaxed until currently, they purchase loans with no minimum portfolio size or average loan size and also will purchase loans in repayment from certain lenders. They are also active with smaller lenders.

A recent incident is a perfect example of competitive forces at work to benefit lenders and thus, the Student Loan Program. Recently, one of the large, open access, lenders in the state wished to liquidate a large portion of its student loan portfolio was offered both to the Authority and to Sallie Mae. Since The Authority offered a par purchase and the portfolio was sold to Sallie Mae, I can only conclude that a premium was paid since the lender said the decision was made on purely a monetary basis. Quite a difference from the conditions that existed in 1980.

Currently, the Authority has $241.4 million of outstanding bonds payable. Of that amount, in excess of $160 million has been expended to purchase student loans from approximately 120 lenders across the State of Colorado. The remaining amount will be expended in student loan purchases between now and September 1986 on a contracted acquisition schedule. The student loan portfolio of the Authority represents approximately 26 percent of the outstanding amount of student loans guaranteed in the state.

The local money for local borrowers concept seems to work exceptionally well in the collection area also. The default rate on the Authority's portfolio is less than 5 percent. In a recent publication, the Guarantee Agency reported a state-wide default rate of more than that. From this, it is concluded that the Authority is doing a better job of servicing and collecting than are the holders of the rest of the rest of the portfolio in the state. Also, in comparison to the FISL experience, it is my opinion that the current organization of state level secondary markets will continue to do a better job of collecting that will a "national student loan bank" type of structure.

Thus, I think the evidence is ample that the competitive process that Mr. Ed Fox, President of Sallie Mae, so heartily endorsed in a speech before the recent National Council of Higher Education Loan Programs [NCHELP] conference is alive and well in the State of Colorado.

The Authority has participated actively in the development of the position paper provided by NCHELP. These recommendations are heartily supported and are recommended for your serious consideration. Two of the recommendations are of special sensitivity to secondary markets. The first of these is the Loan Consolidation issue. Sole sourcing this to Sallie Mae, as was done with the now defunct "Options" Program, would be an unfair competitive advantage for an already much larger organization. By disallowing secondary markets a method by which their average loan size can be increased, they are thereby kept out of the arena of feasibility for taxable financing in the future. As one who has spent a great deal of time in serious examination of the taxable financing option, I can assure you that the average loan size is one of the most critical and sensitive variables in this calculation for feasibility. Thus, the link between including secondary markets in the Loan Consolidation process and taxable financing feasibility is a very, very strong one.

Secondly, it is my opinion that reducing the total return on student loans from the current level of Treasury Bill plus 3.5 percent will, if not immediately, in the long run, drastically reduce the number of direct lenders across the nation. For all of the reasons mentioned above, I think this would have a very deleterious affect upon the Student Loan Program.

In summary, although the types of entities which provide secondary market and direct lending services vary greatly, all of them have a responsibility to prudently operate their programs and are answerable to the citizens of the area in which they operate. It is my hope that this testimony has left you with the impression that these organizations, in general, and especially the model operating in Colorado, provide a valuable service to the Congress and to the Department of Education in providing open access to higher education opportunities at the minimum cost to the federal government.

Mr. **Ford**. Thank you. I appreciated that history of how Colorado got into the ball game and how the legislature became enlightened over a long period of time.

As a matter of fact, the House bill that passed in 1979 that ultimately became the 1980 act literally said to Colorado, if you don't want to get into the business, we are sending somebody from Washington to do it for you.

Mr. **Wesemann**. I think we got the message, sir.

Mr. **Ford**. Well, the Governor was having a terrible time getting them to pay attention and he waved that in front of them and they went into session and did something.

We are happy to see it is working out well.

When the compromise was worked out in the conference, we said Sallie Mae can go in but the Governor can say we don't want them, we don't need them in this part of the market. And so we got a balance achieved because we didn't feel that it would be necessary to go as far as the House bill had gone. We didn't want to remove the carrot, if you will, that had been held out there or the threat that there was a stick behind it. They could have sent the Governor something else to repeal it and we would have been right back where we started. They couldn't very well do that because the Governor could call in the Feds.

So, it was a nice in-house arrangement that they worked out out there and it came out very fine.

I went to school in Colorado and I was shocked to discover in 1979 that it was nearly impossible for people to get guaranteed student loans in the State. And I took time while out there to talk to bankers who told me what a lousy program it was. I couldn't believe that it had got to that stage. It was just common belief down there on Broadway that this program just wouldn't work, and it was working fine, or to one degree or another fine across the country.

Colorado has come into it quite late. How much capital have you picked up from tax-free revenue bonds?

Mr. WESEMANN. $241.4 million.

Mr. FORD. Did you have any trouble getting it through?

Mr. WESEMANN. No, not at all. We were fortunate enough to close the last taxable financing—I believe it was on August 19, 1983. And since that time we have addressed the Department of Education about refinancing, pure refinancing, a nonadvanced refinancing I might add, and we have received approval to proceed with that refinancing tax-exempt issue.

Mr. FORD. Now, Mr. Carlson, you said that there was a problem being raised now with refinancing. What kind of problem?

Mr. CARLSON. The financing technique during the early 1980's, because of very, very high interest rate period, was primarily that secondary markets were doing three, 4-year tax-exempt revenue bond issues that would have a commercial bank or Sallie Mae standing behind them to take out a loan portfolio with the end to actually pay back the bondholder.

These, under our vernacular, come under temporary financings because they do not actually finance the total term of the portfolio.

The objective of doing these type bond issues is to get the money into the student loans when they are needed and refinancing issues down the road when interest rates come back down and you can finance them on a permanent basis until the total maturity of the portfolio.

I have a couple of States right now that have bond issues that were out at rates above 9 percent and we are not able to refund these issues until 6 months before maturity and we just have to wait.

Mr. FORD. How much could you finance them at now?

Mr. CARLSON. I think on an average cost you could probably come in with, oh, 8 percent or around the 8-percent level. You could finance them, probably if you did another temporary type of financing with a takeout, which I would probably recommend to any of my entities, we could come in around 6.5 to 6.75 on a bond issue that might stretch out 4, 5, or 6 years.

Mr. FORD. So, it is a pretty significant difference in cost if they are able to refinance?

Mr. CARLSON. Yes.

Mr. FORD. What is the reason for requiring that they wait until 6 months from maturity?

Mr. CARLSON. The Department of Education has told me that the Treasury Department does not want to have two bond issues out at the same time, where you would float a second bond issue and the first one would remain outstanding until the end.

But when I told the Department of Education that the funds from the second issue are placed with the Department of Education at a lower interest rate—we call them slugs or State and local obligations—the Department of the Treasury would receive funds at a lower level until the maturity of those bonds that they could work with. They said that did not make any difference at all and the fact that there are two issues outstanding is a problem.

Mr. FORD. Mr. McKernan.

Mr. MCKERNAN. Thank you, Mr. Chairman.

I would like to get the opinion of you two gentlemen on some of the discussions we had in the last panel about the adequacy of 3.5 percent for the special allowance for those secondary markets that are taxable, and what you think from your experience the response would be if that were reduced for these markets?

Mr. CARLSON. As I said in my remarks, all secondary markets are going to be able to go taxable. Primarily, the important ingredient in looking to see whether a secondary market would be taxed or not is the area in which they actually maintain their secondary market programs.

If there is a preponderance of low average balance loans in this area, I would say primarily loans that would be under, say, around the $3,000 average indebtedness in borrowing, the margins and spreads because of the increased servicing costs will probably choke the secondary market entity.

The thing that makes the tax-exempt markets work is the special allowance is excluded from the arbitrage regulations in the Department of the Treasury, which, when we run our cash-flow projections in the future, we will run these at the most conservative assumptions possible without regard sometimes to whether they are special allowance or not.

Obviously, in my answer before, we had to work with some special allowance numbers.

But as the interest rates go up and down, this means that extra funds will be coming in that give us padding that Dick Pierce was talking about, so they can handle times when the spreads are very, very thin.

But the 3.5 percent is a rate that we have all lived with for many years. I think it is a very workable rate.

For some institutions, lowering that 3.5 percent might work, but I don't believe it will work for all. In fact, I think some lenders will pull out of the program in some of these secondary markets if they are involved too greatly in taxable financing and will have to shut the doors.

Mr. **Wesemann**. I pretty much echo Loren's opinions. And I think it is going to be the marginal, smaller lenders that will drop out of the program if the special allowance rate is reduced for taxable or commercial entities, and I think that is going to hurt access.

So, I would not suggest cutting it nor would I suggest raising it. As Loren indicated, it seems to be working pretty well right now. So, I guess I would leave it right there.

Mr. **Ford**. Do you see in your analysis of the Ford amendment the method by which the Department of Education has used the language to say that at least Maine, and some of the other States, I guess, that have come in, would not quality for tax-exempt funding? Did you ever suspect that was going to be the result of that amendment?

Mr. **Wesemann**. I never had an inkling that it would be implemented with such an encompassing scope. I think it goes far beyond the intent of Congressman Ford and I certainly don't agree with the interpretation of the ersatz replacement of the word "access" with the word "all."

Mr. **McKernan**. Any comment on that?

Mr. **Carlson**. I can say this was my first experience with the new Ford amendment, when the proposed regulations were presented, and I echo everything Dick Pierce said. It was a very, very difficult time period for us all. We did not have any idea in our original presentation to the Department that they would go into such lengths as they did to require us to pull out information that I, quite frankly, being involved with the program since 1973, hadn't really focused on oftentimes.

And, you know, I go along with you, Chairman Ford, I have learned an awfully lot about the program through this period.

Since then, I think the Department of Education has become more sophisticated in tax-exempt programs and have learned more. I find it easier to discuss problems, but I still find frustrating the fact that a new curve ball oftentimes can be thrown in that seems to set you back and then you have to start all over again.

I think the secondary markets could work with it if the rules are properly drawn out that we could understand them and the Department of Education could understand them, take the subjectivity out of it, and we could make our presentations proper so that the intent of the Ford amendment by this committee was followed through with.

Mr. **McKernan**. You don't see any change in the way the Department is implementing this language since Maine's application was finally denied at the end of December?

Mr. **Carlson**. Well, basically it is still a very, very long process. Probably it was easier at the time that Maine was rejected to get a plan through than it is now. But as the Department of Education has become more sophisticated, in our business we have also become more sophisticated in what the needs of the Department of Education are.

So, we are—as Paul Borden so aptly said, our presentations sometimes become many inches thick, and I did see Mr. Borden's and I think it made the New York City telephone book look like a paperback by the time he finished his submission.

It is easier in some respects, but it is still very, very difficult to get a plan through.

Mr. **McKernan**. Thank you.

Thank you, Mr. Chairman.

Mr. **Ford**. The T-bill as a proxy for, lacking anything else, guessing at the cost of money to the lenders. So when we set it at 3.5 above the T-bill, I think at that time that made it about 13.5 or better.

Now the T-bill is a little over 7, isn't it? So, now you are talking about an effective interest cost that is substantially lower.

Does that proxy hold up in a period like we have just been through in the last 5 years, going from above 10 down to 7? Does that fairly well match what is happening in the marketplace with the lenders?

When we talk about the 3.5, you can't divorce it from 3.5 of what. It is 3.5 on top of something and it is that something that keeps moving. The 3.5 stays constant but the T-bill change takes place quarterly, at least for the purpose of adjustment. And you adjust up and down on a quarterly basis.

Are banks able to deal with that change? Does it happen that the correlation between that T-bill change and the cost of money is so close that it does work out? Or doesn't it?

Mr. **Carlson**. I believe that the T-bill is a very, very fair indicator of the cost of money out there. This is the Government's cost of money in the 3-month area and in the street we all use this as an indicator.

The only possible indicator that might be a bit better, but it is not a published indicator all the time, is the Federal funds rate which is the actual cost that the banks borrow on a daily basis for their cost of money.

Again, I think the T-bill is something that over the past many years the Guaranteed Student Loan Program has learned to live with. We have understood it. It is a good indicator and I would suggest that this not be changed.

Mr. **Ford**. You recommend that we resist changing the present structure?

Mr. **Carlson**. As far as the indicator is concerned, yes. It is a good judge.

Mr. **Ford**. Thank you.

Mr. Biaggi.

Mr. **Biaggi**. Thank you, Mr. Chairman.

A question for the panel. What effect would the President's tax reform plan, if it was passed intact, have on your ability to do business if the adjustment—and I say, the adjustment to use the bonds to finance GSL's? Either one of you.

Mr. **Carlson**. As I stated before, it would put everybody into the taxable arena, all these secondary markets in the taxable arena as far as financing their programs. Many of these secondary markets that are presently open in States essentially would have to close, maybe go out of business or be absorbed by some of the larger secondary markets that have other sources of funds.

It would restrict access, I believe, in some of the areas, primarily the small, rural areas of the country, where it probably would not affect the access in the major money center areas.

Mr. BIAGGI. Would it affect New York banks similarly?

Mr. CARLSON. The tax-exempt bond aspect of it would not affect the New York banks; no. There is not a secondary market, State secondary market in New York working right now.

Mr. BIAGGI. Mr. Carlson, what percentage of your business is done within the State of New York?

Mr. CARLSON. In student loans?

Mr. BIAGGI. Yes.

Mr. CARLSON. The bank—and we are actually talking about a different part of the bank, so please forgive me if my numbers are not correct—but the bank is a major full access lender in the New York State Guarantee Program with a total open door policy. Our portfolio of loans right now, I believe, is around $400 million, and we are very involved with the Student Loan Marketing Association as far as their warehousing program and I believe some interest rate programs with them. That is a totally different part from the student loan.

On the tax-exempt side, we are not involved in the Guaranteed Student Loan Program, tax exempt, with the State of New York. They do not have a State secondary market.

The New York Dormitory Authority has recently financed a $70 million issue for supplemental nonguaranteed loans through their authority, but that is different from this program.

Mr. BIAGGI. Has there been any substantial inroads or encroachment by out-of-State lenders?

Mr. CARLSON. Into New York?

Mr. BIAGGI. Yes.

Mr. CARLSON. Not to my knowledge. My bank has not been one of the more aggressive lenders going out on a national basis. But I know in the State of California two New York banks are the largest lenders within that State in the Guaranteed Loan Program.

Mr. BIAGGI. Mr. Wesemann, do you have a response?

Mr. WESEMANN. I would just comment for your information, sir, it seems like that transporting of student loans is more an import into the State of New York, rather than export. We have a lot of—no, I shouldn't say a lot. We have several major money center banks wishing to do business in the State of Colorado, both as a direct lender and as a replacement for a secondary market in many cases. There seems to be a growing marketplace for portfolios of student loans and they move around a little bit, much more so in the past 2 years than ever before, in my experience.

Mr. BIAGGI. Thank you.

Mr. FORD. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman, I have just two questions.

First of all, what percent of our loans, particularly in the secondary market today, are financed through taxable and what percent through nontaxable means?

Mr. WESEMANN. Certainly the lion's share—and I don't have a percentage right on the tip of my tongue, but for your information I can get it certainly. But by far and away the lion's share in the secondary market arena is financed by tax-exempt funds, primarily because of the newness of the taxable source of financing being used, I think Utah being one of the first and Dick Pierce's operation in Maine being very close behind, or maybe a little ahead.

So, I think that Dave Bayer of the Department of Education in a recent speech testified that in excess of $1 billion of requests for tax-exempt financing had been refused by the Department and whether or not that entire appetite has been since met with taxable sources, I don't have any knowledge. But I suspect from the Department we could certainly get that information for you.

Mr. Gunderson. Do you have any idea of the percentage? I mean, the lion's share, I don't know if that is 52 percent or 99.

Mr. Wesemann. I think it is probably closer to 99 than it is to 52 or 51.

Mr. Gunderson. Do you have a comment?

Mr. Ford. I would like to comment, if the gentleman would yield.

Mr. Gunderson. Sure.

Mr. Ford. I have numbers from the Department. As of February of this year, of the requests for $4.4 billion, $1.4 billion was approved for tax-exempt financing.

Mr. Gunderson. How does that contribute to the total amount out there which is existing today?

Mr. Ford. The total outstanding through 1984, actually fiscal 1984, in the secondary market it is $1.8 billion, and in the direct lenders it is $1.5 billion, $3.4 billion altogether outstanding.

Mr. Gunderson. And the bulk of that is, obviously, tax exempt—that is all tax exempt.

Mr. Ford. That is all tax exempt.

Mr. Gunderson. Do you have any figures on taxable?

Mr. Ford. No, because this is—maybe Mr. Fox will be able to answer that. He is on the next panel.

Mr. Carlson. Mr. Chairman, I would like to comment a little bit differently on this. The actual numbers on the taxable side I don't think are as well defined, as we are finding out, as the tax exempt arena.

The Student Loan Marketing Association has a very fine and very large purchase program that they are working with on a yearly basis.

Also, my bank alone has purchased probably $100 million of student loans through the secondary market within the State of New York. We have a group of savings banks within the State that we will purchase their student loan portfolios from on a periodic basis.

The other money center banks, even outside of New York, I know, are quite involved with this. You have Wachovia Bank down in North Carolina that is quite aggressively involved with student loan secondary market purchases and these types of things.

So, I am not as comfortable as Mr. Wesemann is in saying that tax exempt financing is a preponderance of the secondary market activity. I think that taxable financing is probably larger than tax exempt. Especially with the new plan for doing business requirements this past year, I am sure taxable has probably taken over.

Mr. Wesemann. I certainly would like to clarify my comment. I was speaking from the standpoint of the state level secondary markets. In that subsector most of that is tax exempt financing.

Mr. GUNDERSON. OK, thank you. My other question is to you, Mr. Carlson. You indicated in your testimony—on page 6 you said, "During the process of reauthorization * * * changes in the nature of the Guaranteed Student Loan Program should be carefully considered so as not to harm the" nature of "participation of taxable secondary markets or lenders."

Can you give me examples of the kinds of changes that would present real problems?

Mr. CARLSON. I think one example is the movement of the special allowance from 3.5 down to 3.2. I think before this committee makes a recommendation that way that they would want to do a lot of research on what the impacts might be with not only secondary markets, not only Sallie Mae, but also with the banking community, really getting involved in looking at what the costs are of origination and servicing that loan over the loan haul.

In Mr. Fox's testimony last week he had a drawing that was one of the better I have seen in a long time, which showed the periods in which a student loan financial instrument owned by a commercial bank or a secondary market goes through a profitable stage vis-a-vis a loss stage.

And all financial institutions involved in this program will look at what the long term prospects of that financial instrument means as an asset on their books. If that asset is not one that they deem to be profitable, they may very well pull back from the program, which will in turn hurt the access and the wheel will come around one more time.

My comment for that is, the program works, the program works well. I know we are looking at many ways of saving on the federal budget right now. But education is a very, very important thing, this program is working, and before any changes are made, I believe you should look at these changes very, very closely as to what the impact would be 5 or 10 years down the road.

Mr. GUNDERSON. You have forced me to ask you a third question I hadn't intended to ask. But can you make a prediction that if we lower that percentage from 3.5 to 3.2, et cetera—what do you think the participation of banks realistically will be? Speak for your own bank. Will you cut back?

Mr. CARLSON. All I can say, when I first read the proposed changes, I called out to Peekskill, Long Island, which is our student loan area, and of course, I was all emotional and hyper and wanted to, you know, say we have got to figure out what we can do about all these changes and everything else, and our student loan person sent back to me and said, "Loren, don't worry, we have been through it before, if we don't like what they do, we drop out of the program."

And I don't know, speaking for our bank, what we will do with the drop below 3.5, but speaking for my bank, they can say, "Just sit and watch and then we are going to make a determination as to whether they want to continue in the Guaranteed Student Loan Program or not."

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. FORD. Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman. My lateness—I want to apologize for it—doesn't lessen my interest in the issue of postsecondary education. It is unfortunate that we have three subcommittees slated at the same time, which makes it difficult to make all three of them.

I do have an interest, not a question. Really, I see, I guess, the whole issue of education as the key to our security, and as we proceed to try to find ways to reduce our deficit, I just want to make sure, as one Member of Congress working with others, that this is not the area that we find a way to reduce our deficit, and I hope the witnesses share that opinion.

I represent a district in Illinois where the disadvantaged numbers are increasing, the economically disadvantaged, and at a time when education is most necessary to have a chance to fit anywhere into the future, and without the Federal assistance and help in being able to go to school, to institutions of higher learning, the increasing numbers of the dropout rates will increase with increasing numbers of people who won't even try.

So, I just hope you share that kind of opinion and transmit that feeling to some of the colleagues here in Congress. I just want to make that statement.

Mr. FORD. Thank you.

Mr. Atkins.

Mr. ATKINS. I would like to ask the panel if they have any kind of sense, if the Congress does eliminate tax exempt financing for student loans, what portion of the present volume that is tax exempt would be able to shift to a taxable program? And for that portion that wouldn't shift, what kinds of changes would be necessary to induce lenders' backing of the program under a taxable basis?

Mr. CARLSON. That is a difficult question because I haven't actually sat and looked at everybody's portfolio to try and figure out. I would say, shooting from the hip a little bit, the—before I have said, and I know I have heard other individuals say about the average loan balance—that if the student loans are completely out of the tax exempt arena, the area of the tax exempt market that will probably shift over are those institutions, the larger ones will definitely be able to go on a taxable basis.

In those areas where your academic institutions have very, very low tuitions, the trade/technical schools, the 2 year institutions, these institutions may have an access problem because lenders cannot feel that they have a place to move their assets to a secondary market. They may pull back from lending in this area.

As far as what amount, say 50/50, 70/30, I really don't know. But just to give you an idea of the types of loans that will shift and won't, as many of the state secondary markets increase in size and become more sophisticated in managing their margins, much the way the Student Loan Marketing Association has the last 2 or 3 years, very possibly this group that I talked about with the small average loan balances will not be affected as greatly. We may be able to move in and make sure there is access there.

If not, possibly Congress should look at giving some extra incentives for lenders to make these low balance loans to these areas, if that is what happens.

Mr. ATKINS. Would that kind of special incentive involve a greater special allowance on those loans, or other kinds of things?

Mr. CARLSON. Again, I think they would have to have, again, possibly a greater special allowance for loans of low average indebtedness to certain types of institutions. That might be helpful. Or a constant secondary market so they can make these loans and then take them off their books.

Mr. FORD. Thank you very much, gentlemen, for your help. I am sure you can see that you have left a lot for us to think about.

The next panel is Mr. Edward Fox, president of the Student Loan Marketing Association, and Edward McCabe, chairman of the Board of the Student Loan Marketing Association.

STATEMENTS OF EDWARD A. FOX, PRESIDENT, STUDENT LOAN MARKETING ASSOCIATION; AND EDWARD A. McCABE, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION, A PANEL

Mr. McCABE. Mr. Chairman, thanks for the opportunity to come up here and visit again. We appreciate it and welcome your attention to our activity.

I am Edward A. McCabe. I am chairman of the board of the Student Loan Marketing Association.

It occurs to me that in light of your earlier activity here this morning, the earlier testimony, that perhaps it might be most useful to you—I will abide by your wishes, as will Mr. Fox, but it might be most useful if I should perhaps try to give you an overview, a general look at Sallie Mae, what we are, what we do, why we are here and what we may be able to offer to your deliberations, rather than read any prepared testimony.

I might say at the outset that we come here this morning with no recommendations for you. We do not undertake to advise you on what should be Federal policy on education aid generally, as to what mix you might have of grants, loans, other refinements of the programs that now exist. We limit ourselves to our effort to be a good financial intermediary in the student credit industry to supporting education credit, and in that regard we view that to be a full time job and we will be happy to leave the central policy decisions to the ladies and gentlemen of the Congress. And then, when those decisions are made, we would like to move forward with our assignment, with our activity under our corporate charter and be that financial institution which we are and serve the public purpose we do serve.

And in the sense of a general overview, I am mindful of the fact that there are new people on the membership of this subcommittee and on the full committee, there are new members on the staff, and I would like to extend an invitation to all of the committee members as well as committee staff, anyone who might wish, you might be interested and it might be useful if you could ever find the time in this busy season you have to take a trip over to our operations center in Virginia. We would like to arrange that and let you see what the operation itself looks like, to let you see what those computers shape up to be, and so on. And we would like to follow that up with your staff, Mr. Chairman, and to make that opportunity available to those of you who might want to take advantage of it.

[The prepared statement of Edward A. McCabe follows:]

PREPARED STATEMENT OF EDWARD A. MCCABE, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION

Mr. Chairman, I am Edward A. McCabe, Chairman of the Board of the Student Loan Marketing Association (Sallie Mae). I have served as Chairman twice from 1972 to 1978 and from 1981 to the present.

Sallie Mae is a federally chartered, stockholder-owned corporation which provides the nation's largest single source of financing for postsecondary education credit. Sallie Mae was created by the Congress in the Education Amendments of 1972; section 439 of the Higher Education Act of 1965 is the corporation's charter. Sallie Mae supports the public purpose for which it was created—assuring the availability nationwide of education credit. We also serve the interests of our investors—commercial lending institutions, educational institutions, and the general public. Our shareholders expect us to achieve a reasonable return on investment and not to assume risks which would adversely affect our ability to do so. To foster our public mission, Sallie Mae is expected to provide leadership to the education credit markets to ensure the continuation of private capital availability for student loans.

Under the statute, Sallie Mae's voting stock can be owned only by financial and educational institutions that make guaranteed student loans. Financial institution shareholders and educational institution shareholders each elect one-third of the 21 members of the Board of Directors. The President of the United States appoints the other seven directors and designates the chairman. The Board, in its diverse makeup, reflects the diversity of interests in the education credit industry: banks, private colleges, public colleges, state guarantee agencies, insurance companies, and the public. In keeping with a traditional corporate structure, the Board of Sallie Mae provides an active stewardship over the corporation and, with a highly qualified management team, has total responsibility for Sallie Mae's policies and performance.

Mr. Chairman, we offer a variety of financial products and services to the education credit market. Since 1973, we have provided over $18 billion in funds and commitments for education loans. This represents the funding for more than 7 million individual student loans.

The milestones which the corporation has reached since the last reauthorization are many. Let me cite some examples. In 1981, we reentered the private capital markets, where we now raise our funds on our own—without the backing of the U.S. government. In 1983, we had our first stock offering to the public. In 1984, we were listed on the New York Stock Exchange.

Our growth has been strong and steady with products and services which provide lenders with a comprehensive range of loan purchases, funding, and processing support.

We are proud of the record of the corporation. We believe it continues to achieve the goals of a reasonable return to investors and a continually increasing support for education credit.

We appreciate your invitation, and we stand ready to work with your Subcommittee in the reauthorization process.

Mr. **FORD**. Thank you.

Mr. **MCCABE**. And, of course, we are happy as we come here this morning and will in the future, happy to respond to any requests of us for information, for commentary in the technical, professional sense of our own expertise, the expertise we have in the business.

Sallie Mae, just to set the stage of it, is 13 years old. And this summary will suffer a bit from any generality. I am perhaps oversimplifying. But we are 13 years in existence.

I have been chairman of the board of directors for about 10 of those 13 years. Edward Fox, who sits here at my right, has been president and chief executive officer of the corporation for the entire term of our corporate activity. He was the first employee we hired back in early 1973.

So, we do have some corporate memory, some institutional memory here to share with you, and we are delighted to do that.

But we are essentially a financial institution. We are a lender's bank. We are a source of funds to those people who make education loans and that, at the heart of it, is our public purpose.

We believe that as a private institution owned by our shareholders we serve that public purpose best to the extent that we operate ourselves as a very sound, thorough financial institution, as we earn the respect of our constituency, the people we deal with not only in the financial marketplace but in the whole region of the student credit industry as well.

We are stockholder owned. We are listed on the New York Stock Exchange. We make a profit. We pay dividends to our shareholders. And, of some interest perhaps to Congress in these deficit conscious days, we are a substantial Federal taxpayer. We pay very substantial Federal taxes.

Our clients to whom we make funds available for their education lending include banks, S&L's, other private commercial lenders, also colleges and universities, and we are a source of funds for State agencies as well.

We don't express a view here as to whether there should be a mix of whatever kind between taxable or nontaxable funds, as was discussed earlier this morning.

I would only add, though, that we service both ends of that market. We are a source of funds, as was pointed, when Maine was unable to get approval for a tax-exempt undertaking, Sallie Mae became a source of funds for their taxable funds.

We are also in the process and have the business, purchasing the tax exempt. So, we can assist in whatever way this policy decision is made. We will stand ready to assist as we have in the past.

We raise our funds, funds we make available to these lenders—we don't deal, as you know, directly with the students, as a generalized statement. We deal with the lenders. We are a source of funds for those lenders.

We raise our funds in the private capital market, as other corporations do. We are doing it now. We voluntarily stepped away from any relationship with the Federal Financing Bank in 1981 and on our own initiative we are out successfully, I am happy to say, raising funds in the competitive private capital markets, both in the United States and abroad.

We are, as I said, stockholder owned. Our stock is sold to the general public. We are listed on the New York Stock Exchange. And we are big.

Sallie Mae is a big company. We are something over $12 billion in assets. I think the last time I saw one of those listings of corporations in the United States, I think we were number 90, or close to that, in the list of the first 100 corporations in the country in terms of assets. So, we are large.

We are also a very complex operation. Our operations are very complex. Of necessity they are when you are dealing with this multiplicity of small transactions, relatively small—not small, obviously, to the lender or the borrower, but there is a multiplicity of these transactions which make our operations really quite complex and we would invite you to come and see some of the physical trappings of that operation, and we will follow-up, as I said earlier.

We have a very involved board of directors. We have a 21-member board. They pay close attention to what goes on. We meet regularly. We are much into the workings of the company.

We have an exceptional management, I would like to add here, and I think as you look around, not for my opinion or the opinion of the education community, but go beyond that and include the financial community as well, you would probably find the view that we are regarded as one of the most well managed financial institutions in the country, and we propose to keep it that way because, as I said earlier, we believe we serve best that underlying public purpose, the education credit purpose, we serve that purpose best to the extent that we do operate as a fine, sound, well-run financial institution.

We do, as I said, make a profit. We pay dividends to our shareholders and we pay substantial taxes. We hope to continue that.

And again, just summing up, we make no policy recommendations. We don't think that is a suitable place for us.

We do have a very substantial data base. There have been some references to that subject here this morning, and we would like, on your request, if it is useful to anybody, we will share what we can of the information that we have in that data base and we will continue to answer any questions you have.

And one final and closing remark I would make is that we don't look, we don't ask for any monopoly assignment. We thrive on competition. We think we can handle it. I like to think we are good at it. We don't want—we made this point a couple of years ago when Ed Fox and I came before you and testified about the loan consolidation program, just as an illustration—we don't want any monopoly assignment.

We leave it to you in the Congress as to how you structure and how you regulate in whatever way you see best the whole business of State organizations. We have no view on that. We just don't want any monopoly and we are out here to help you, if we can.

Mr. FORD. Thank you very much.

Mr. Fox.

Mr. FOX. Thank you, Mr. Chairman.

Sallie Mae was created in 1972 to support the credit needs of postsecondary education, and 13 years later that is still our mission.

We are very focused, narrowly focused on postsecondary education. We are a wholesale oriented institution and I think we are reasonably productive as an institution, which means that we have relatively low overhead compared to the banking system and to others who are in our business, and that we are able to provide through access to inexpensive funds in the capital markets and low costs, we are able to provide services and benefits and funds to our customers at a relatively attractive level.

Briefly, as I am sure you are all aware, our businesses include lending money to participants in the Guaranteed Student Loan Programs—we call those warehousing advances—with a variety of terms and conditions ranging from 3 months to 15 years, variable or fixed rate, basically tailored to meet the cash flow needs of the borrower, whether the borrower is a State institution, an education institution, or a financial institution.

Our major mission is to buy student loans originated under the GSL Program. We do that from a large number of clients, under about 45 different guarantees, and we endeavor to collect those loans either through our own servicing facilities or through 12 or 13 institutions that we have retained as agents to service loans for us throughout the United States.

We provide commitments to many of the participants in the Guaranteed Student Loan Program, either to lend them money or to buy their loans, or a combination thereof. This motivates them to participate in the program, gives them confidence that there will be a source of liquidity for them in the future, and even though it doesn't show up as business on our books on some occasions, it is the assurance that many participants in the Guaranteed Student Loan Program need to feel confident that if they invest in student loans, which are essentially long term consumer receivables, that they will have an opportunity to liquify that portfolio and have the funds available to relend in the Student Loan Program.

To those who are issuers of securities, whether taxable or tax exempt, we offer letters of credit and commitment agreements: We have done a considerable amount of that over the year.

We also are a major purchaser of student loan tax exempt receivables, student loan revenue bonds. We own about $280 million of such bonds, most of which have been bought in the last 2 years. I believe we are probably the largest holder of student loan tax exempt securities.

We have approximately 2,300 customers. These people have been doing business with us for as often as 30 different transactions. We develop about 300 or 400 new customers each year.

Through our national telemarketing facility we reach out to approximately 10,000 institutions a year, 7,500 of which would be characterized as being quite small.

For a number of years we have had a community lender program. We began that in the late 1970's and I am pleased to report that approximately 1,000 of our customers are banking institutions of less than $100 million in size who have been doing relatively small transactions with us for a long period of time. The average transaction is about $140,000, which means either borrowing that amount or selling us approximately 40 or 50 student loans a year.

We have had this Outreach Program for community lenders but over time we have developed a number of others where there have been niches that appeared not to have been served in the private capital markets or the tax exempt capital markets.

For example, we have provided programs to the United Negro College Fund, the Independent Black College Fund, working with a minority bank here in the District. We put programs in place in the District of Columbia when lending was being undertaken here. We have a variety of lender of last resort programs. We provide lender of last resort programs for health education assistance loans.

When the mutual savings banks in the Northeast were in some difficulty, we provided lines of credit for them to keep them into the program, a very significant group of participants, and on it goes, a vocational school program, a credit program with a major bank.

Wherever we found that there has been an insufficient flow of credit supporting access and freedom of choice, we have tried to put the funds out there in such a way, working with others in the program, whether they be banks, States, or education institutions, to assure access and credit availability.

In recent years we have been trying to put in place some programs that I would characterize as nongovernment insured lending programs.

To the extent that there is a cap on the amount of money that can be borrowed by an undergraduate of $2,500 or $5,000 by a graduate student and to the extent that there have been some very significant increases in the cost of attendance, primarily for private, limited access schools, or to graduate schools, since those caps were put in place we have been working to try to create auxiliary programs, moneys that would be made available either with the credit of an institution between us and the student, or with a private insurance provided by an insurance carrier, so that additional sources of funds could be made available to support access to education.

We have a limited amount of those programs in place, but depending on what comes out of reauthorization there may be a need to accelerate that kind of program.

On the financing side, Ed McCabe mentioned that we voluntarily left the Federal Financing Bank in 1981, 2 years before we were mandated to do so. We were able to do that because of the strength of our balance sheet and I am pleased to advise that we have been able to obtain funds in some of the more imaginative ways and in very diverse markets all over the world.

We were the first institution in the United States to use a concept called interest rate swaps. The concept of floating rate notes which you use in this country emanated from our finance department.

The very first registered Euro-yen issue was sold by Sallie Mae earlier this year.

What this all means is that we have been able to create financing vehicles to reduce our cost of operation, which we have been pleased to be able to pass through to our customers in the form of reduced cost of services.

We were the safety net in 1981 when it was feared that significant amounts of student credit provided under the Government programs would not be available.

We were offered such programs as perhaps being a direct lender, an insurer, support of tax exempts, and the like.

As to the two former, the two first authorities that were in the legislation in 1981, to be a direct lender and to be an insurer, those were not unilateral decisions on our part under law. Those authorities aid that were there to be a shortfall or an unavailability of credit in a State, and were that State to make a request of the Secretary that an out-of-State authority be brought in, Sallie Mae to provide credit, then and only then, if that determination had been made by the State and by the Secretary, could Sallie Mae be invited in to provide service.

Fortunately, there has been a significant amount of capital supporting higher education, postsecondary education, in the last 3 or

4 years and it has not been necessary for us to be invited in to support either of those two programs.

There is a lot of support for the programs today. The decentralization that was talked about earlier, the strengthening of the secondary market, the ability of the program to be made more like a banking program all have enabled this program not only to survive but to thrive and to assure that there has been adequate capital in support of students' access to higher education.

Thank you, Mr. Chairman.

[The prepared statement of Edward A. Fox follows:]

PREPARED STATEMENT OF EDWARD A. FOX, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STUDENT LOAN MARKETING ASSOCIATION

I. OVERVIEW.

Mr. Chairman, members of the subcommittee, I am Edward A. Fox, President and Chief Executive Officer of Sallie Mae. I am pleased to appear before you to discuss the reauthorization of the Higher Education Act of 1965, and today to discuss Sallie Mae in particular.

Mr. Chairman, Sallie Mae is a very different corporation than it was in 1979 when you last considered reauthorization. I am pleased to report to you that we are a stronger, more viable corporation that is better able to provide increased support and more innovative programs to enhance the availability of student credit.

To illustrate the changes in Sallie Mae in five short years, a few comparisons may be helpful. In 1979, the total assets of the corporation were nearly $1.6 billion; today, they are $12.5 billion. In 1979, we had done business with about 600 financial and educational institutions, state agencies and other organizations; today we have reached about 2,300 institutions in support of the GSLP. In 1979, we held $43.1 million in stockholders' equity, representing voting common shares and retained earnings; today, we have $599 million in shareholders equity, representing 26.1 million shares of voting common, 15.1 million shares of nonvoting common, 5 million shares of preferred stock and retained earnings. In 1979, our sole source of financing was the Federal Financing Bank of the U.S. Department of Treasury; today our total outstanding FFB borrowings of $5.0 billion are 43 percent of total borrowings. Since 1982, we have raised all our borrowed funds directly in the private capital markets. These financings today account for the other 57 percent of our borrowings.

It has been an eventful five years, Mr. Chairman. More than half of the products we offer now, all of which support student credit, did not exist in 1979. We have attempted to anticipate and adapt to both the growth and the changes in student credit needs. We remain committed to the mandate given to us by Congress that Sallie Mae's business is the support of higher education financing.

Building on more than a decade of strong financial growth and product innovation, we believe Sallie Mae is well situated to provide support for student credit in the future. We believe that there will continue to be an increasing demand for student credit, as well as other types of financing for higher education. The banking system is also likely to change radically in the next five years. If the GSLP is to remain successful, we must assure that student loans continue to be viable investment instruments for private sector financial institutions. We look forward to the challenge presented by the changes we see in the near term, and we believe Sallie Mae can play an active role in assuring the future availability of student credit.

Insofar as Sallie Mae's role in education credit is concerned, we believe the twelve year history of the corporation speaks for itself. We believe we are what Congress intended that we be: a private sector corporation which functions efficiently and profitably while fulfilling its original public purpose and taking on new ones.

My statement provides a review of our activities in support of student credit, our financing of these operations, oversight of the corporation, as well as our view of reauthorization as it may affect the corporation's charter. We are not suggesting any major innovations for Sallie Mae.

Mr. Chairman, in 1979, this Subcommittee was the first to believe this corporation could go private and still support student credit. I am proud that we have met the challenge you set for us in the Education Amendments of 1980. We look forward to working with you on this reauthorization. As always, we are available to you and the members of the Subcommittee for any technical advice or assistance you may request.

II. SALLIE MAE'S STUDENT CREDIT OPERATIONS

Sallie Mae, as the national secondary market for student loans, has attempted to provide support for all sectors of the education credit market by offering its traditional secondary market facilities, developing and participating in programs designed to address particular areas of need, and by pioneering in new, supplemental credit mechanisms. An examination of these activities reveals the extent of the corporation's role in providing liquidity for loans originated under the GSLP, its most basic purpose, and in meeting student credit needs generally.

Sallie Mae offers two primary products to increase the liquidity of GSLs: the purchase of student loans and warehousing advances to fund student loans in lenders' portfolios. By purchasing loans made under the GSLP, as well as the HEAL program, Sallie Mae provides additional lendable funds to lenders. Because the corporation generally assumes responsibility for servicing loans it buys, its loan purchases also relieve lenders of the administrative burden and costs associated with insured student loans. Through its warehousing advances, Sallie Mae provides liquidity to lenders against the collateral of their existing student loan portfolios, other U.S. Government or Agency issues, or other acceptable collateral. Institutions with advances collateralized by insured student loans must either reinvest all advance proceeds into additional guaranteed student loans or maintain a specified student loan portfolio level throughout the term of the advance. Institutions offering other collateral must fully invest all advance proceeds in guaranteed student loans. Sallie Mae also provides the assurance of future availability of funds through the issuance of forward commitments. These commitments, for both loan purchases and warehousing advances, have enabled many state and private lenders to maintain lending activities through the assurance of continued student loan credit availability.

Specialized products and services

Community lender outreach

In 1981, Sallie Mae began a special outreach to smaller lenders through its Community Lender Plan. Since the inauguration of this effort, Sallie Mae has purchased more than $185 million in student loans from more than 600 institutions, each with assets less than $100 million.

Heal assured access plan

During the past four years, Sallie Mae has provided a secondary market in support of the Health Education Assistance Loan (HEAL) Program through it HEAL Assured Access Plan. This plan was implemented in 1982 when the low level of bank participation in the program threatened the adequate supply of capital for all qualified prospective borrowers. This plan was put in place following consultation and with the support of the Department of Health and Human Services, bankers, and the appropriate educational institutions. Through March 1985, Sallie Mae had disbursed nearly $151 million under the Assured Access Plan to approximately 15,000 students attending institutions all over the United States. This represented aproximately 29 of all HEAL loans originated during this period. In addition, Sallie Mae facilitates entry and participation of lenders in the HEAL program by purchasing loans they originate. Through March, Sallie Mae had bought $150 million in HEAL loans from 64 financial institutions.

Assured access programs for GSL and PLUS participants

Sallie Mae has also developed and participates in assured access plans to assure credit availability for various identified groups of potential GSL and PLUS borrowers. The prototype for these plans was the United Negro College Fund Assured Access Program.

In 1982, Sallie Mae joined with the United Negro College Fund [UNCF], Health Education Assistance Foundation [HEAF], an Citibank to ensure the availability of funds for students attending the 42 UNCF member colleges. Last year, Sallie Mae joined Independence Federal Savings Bank and the Office for the Advancement of Public Black Colleges to launch another assured access plan for minority students. Sallie Mae committed $45 million to that undertaking which, through March of this year, has provided more than $15 million in GSLs to 4,500 students across the country. Sallie Mae has also advanced $300 million to a major GSL lender to finance an assured access plan for vocational school students and committed $150 million to a plus lender to assure the availability of that supplemental financing around the country.

Noninsured student loans

As the cost of education has risen at about twice the rate of consumer prices generally in recent years, Sallie Mae has also, over the last two years, begun to develop and pilot new mechanisms for providing supplemental education credit.

In 1983, Sallie Mae provided funding for the first time for noninsured student loans when we committed to provide collateralized financing to a university to fund its own noninsured student loan program.

In 1984, we began to pilot a new, privately insured loan plan, of our own design, to provide a supplemental source of financing to graduate students pursuing advanced degrees in the most costly professional fields: business, engineering, health professions and law. We expect soon to launch a similar pilot plan for providing supplemental financing for students' parents.

These pilot undertakings demonstrate Sallie Mae's commitment and flexibility in providing innovative solutions to meet growing and/or changing credit needs of students and their parents. To further this effort, Sallie Mae also last year acquired a newly chartered thrift institution in North Carolina, as we informed the Congress. First Capital Corp. gives us another tool to use in the development and testing a new education-related credit instruments.

Programs to support State financing of student loans

For the last decade, Sallie Mae has also provided credit support and direct financing to state student loan agencies, both direct lenders and secondary markets. We have broadened and enriched our services to this sector of the market as agencies' needs have changed and evolved. Since 1976, we have offered forward purchase commitments to back state agency bond issues by assuring a future market for underlying loans should refinancing not be feasible when bonds mature. As of March 31, Sallie Mae had $438 million outstanding in forward purchase commitments to such agencies. In late 1983 Sallie Mae introduced letters of credit which lend the highest investment grade rating to state bond issues they back. We have issued $180 million in letters of credit since then. Sallie Mae also in 1983 became, for the first time, a purchaser of student loan revenue bonds. One purpose of our more recent purchase of First Capital Corp. was to increase our ability to provide this kind of support to the state agency sector. As of March 31, we held $290 million in student loan revenue bonds and notes. Our involvement as an investor in that market has contributed to stability in both pricing and turnover. Early last year, Sallie Mae also introduce a Loans-to-States Plan offering state agencies an alternative to tax-exempt bond financing, by providing them with direct loans and commitments on a taxable rate basis. Through March 31, Sallie Mae had committed a total of $2.3 billion to 11 agencies to fund their student loan operations over the next 2 to 4 years.

Loan Consolidation Program (Options)

Sallie Mae was given the responsibility in 1980 amendments to put in place a Loan Consolidation Program for certain qualifying students who had borrowed under the National Direct Student Loan Program [NDSL] and the GSLP. Before termination of this Program, Sallie Mae had consolidated $390 million of indebtedness for 32,000 students. Sallie Mae continues to support a mechanism to encourage sound debt management of student indebtedness, as I testified before this Subcommittee last week.

III. FINANCING OF SALLIE MAE

Since early 1982, pursuant to an agreement with the Treasury Department reached the previous year, Sallie Mae has financed its education credit operations by borrowing directly in the domestic, and, more recently, even the international, capital markets.

To assure the long-term financial soundness of the corporation, and, hence, our continued ability to provide a reliable, national secondary market for education loans, our financing have been structured to insulate the corporation from interest rate risk, to the maximum extent possible.

To improve financial strength, we also took two major initiatives to increase our equity capital base in 1983. In March of that year, Sallie Mae sold 5 million shares of adjustable rate cumulative preferred stock which provided $250 million in new capital; the following September, we sold an initial public offering of nonvoting common stock which raised $103 million in primary equity for Sallie Mae. At the end of March 1985, the corporation had outstanding 26.1 million voting common shares and 15.1 million nonvoting common shares. Our total equity, including retained earning and the preferred stock, was $599 million at March 31, 1985.

During 1984, Sallie Mae financed its operations by raising $2.3 billion in net new funds using a variety of innovative techniques to tap both the domestic and international capital markets. A $200 million convertible subordinated debenture offering, for instance, provided the corporation with both a current, cost-effective source of funds, and a future source of equity. We also issued the first-of-their-kind, 6-month floating rate notes and zero coupon notes, continued to use interest rate swaps, and prepared for a Euro-yen offering which occurred in early 1985. We also continued to structure our financings to achieve a match in the interest sensitivity of our liabilities with the rate sensitivity of our assets. This practice, to which we have always adhered, preserves the quality of our balance sheet and our earnings.

Given the increasing demands for capital throughout the world, a strong balance sheet, and a strong earnings statement are Sallie Mae's best assurances that it will have access to capital in the quantity necessary and at the price appropriate to support student credit operations during the balance of the 1980s and beyond. I am pleased that during the past two years we have actually lowered the cost of doing business with Sallie Mae as we have passed through the benefit of operating efficiencies.

IV. OVERSIGHT ACTIVITIES

Oversight of Sallie Mae's activities rests with both the Congress and the Executive Branch. All of Sallie Mae's debt issuance must be approved by the U.S. Department of the Treasury. Further, the committees of the Congress with jurisdiction over education have maintained continuous oversight of our operations. In addition to two hearings specifically devoted to oversight of Sallie Mae (Senate hearing-1982, House hearing-1983), I have testified several times before the Congress since the enactment of the Education Amendments of 1980.

The Committee of Conference for the Student Financial Assistance Technical Amendments Act of 1982 requested the General Accouting Office [GAO] to prepare two reports on Sallie Mae. H.R. Rep. No. 887, 97th Cong., 2d Sess. (1982). The first GAO report was an interim study concerning Sallie Mae's loan consolidation activities. The interim study was orally delivered to the Senate Committee on Labor and Human Resources on May 25, 1983, and was discussed in Sallie Mae's 1983 Report to the President and the Congress. The second GAO report is an extensive study of the activities of Sallie Mae and was delivered to the Committee during 1984.

The Conference Report requested the GAO to concentrate on the evolution of Sallie Mae's legislative authority and to determine whether the provision of additional capital for student loans from the private sector, Sallie Mae's original purpose, has been significantly eroded or altered through legislative changes or policy redirection. The Conference Report also requested an analysis of whether Sallie Mae had lessened its secondary market activities for direct lending or loan guarantees.

In preparing its report, the GAO studied Sallie Mae's legislative development from the 1972 Amendments to the Higher Education Act of 1965 (Public Law 92-318, June 23, 1972) through the Student Loan Consolidation and Technical Amendments Act of 1983 (Public Law 98-79, August 15, 1983) and reviewed Sallie Mae's financial reports and supporting information for years 1973 through 1983.

Although noting that Sallie Mae's legislative authority and functions were materially expanded six times since 1972, the GAO concluded that through December 1983 Sallie Mae had provided about $10.0 billion in student loan liquidity through the purchase of student loans and the making of secured loans (called warehousing advances) to eligible GSL program lenders, and that almost all of this activity resulted from authority contained in Sallie Mae's initial legislation and the remainder from its new authorities.

The GAO Report also states that Sallie Mae has not exercised any authority to make and insure guaranteed student loans in certain capital shortage conditions under the authorities set forth in the Education Amendments of 1980 (Public Law 96-374, October 3, 1980) and the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, August 13, 1981).

In conclusion on this point of inquiry the GAO found:

"Despite the concerns expressed regarding Sallie Mae's expanded authorities, representatives of the banking and other student loan-related organizations we contacted indicated that the liquidity provided to lenders by . . . [Sallie Mae] through its secondary market activities has contributed significantly to increased loan availability for students, and that a national secondary market for student loans is needed to stimulate continued private financing to meet loan demands."

We welcome oversight of our operations, Mr. Chairman, and we will continue our policy of notifying this committee of all the corporation's material initiatives. We believe both Sallie Mae and the Congress benefit from continuing dialogue to insure we are fulfilling our purpose of providing support for student credit.

RECOMMENDATION FOR REAUTHORIZATION

Mr. Chairman, you are aware that Sallie Mae has consistently taken the position that educational policy determinations are not within our purview. We will, of course, endeavor to provide whatever technical advice and assistance this Subcommittee may desire in determining how best to accomplish whatever goal you seek to reach.

The Student Loan Marketing Association does not, at this time, have any specific recommendations to present to the Subcommittee. We believe Sallie Mae's current charter provisions are adequate to carry out the mission you have set for us. At the same time, we recognize that as you review the Higher Education Act in the present climate of continuing budget constraints, you may well discover needs of the higher education community and of students that are not being met by current programs at current funding levels. Moveover, we can foresee that the effects of these constraints on public resources may be exacerbated by other events such as tax reform, interstate banking and other changes in the financial services industry, changing student populations, and aging plants and equipment of institutions of high education.

Sallie Mae has a record of providing financial resources to postsecondary education and of adapting our services as the needs of that community change and evolve. Especially in this time of evolution in both the educational and financial communities, we stand ready to help this Subcommittee assure that postsecondary education has access to adequate capital from the private sector in any way we can.

In short, we do not presume to suggest how this Subcommittee address the difficult and complicated questions facing higher education. We do, however, offer our resources and expertise to help you, if you so desire, to solve the problems you identify and to meet the challenges facing higher education in the future.

Mr. FORD. Thank you. I am fascinated with your Euro-yen program. Maybe that is how we get back some of the money that Americans spend on Japanese cars.

I appreciate the presentation of both of you gentlemen here this morning. I have to tell you that you have been so modest down there that you are one of the most active and lesser known activities in this town.

I think it would be better if you tooted your horn a little bit more than you do, because I am afraid that beyond our committee there aren't enough Members of the Congress who know the little story that you have just been telling us. I don't know how you would ever get that carried by the media, because it is good news, and they just won't give that any attention. But it is a story that really ought to be told.

I hope that you have eased a lot of concerns, Mr. McCabe, when you said you are not looking for a monopoly. There are people who don't know you very well, know your agency very well, who suspect a monopoly every time they hear Sallie Mae's name.

But I think that our experience on this committee with what really was not easy for many of us to accept as something likely to turn out this well has been uniformly positive over the years and we appreciate very much the fact that you have been very stable.

For a Government-sponsored agency to get the kind of stability you have achieved is a bit unusual. We haven't always had good luck starting into these ventures over the years with Government, and this is one that has worked very well and certainly is doing everything that even its most earnest proponents were willing to expect to have happened.

We think it is a fine success story that needs to be told.

I think it is important also—the panels we have had today couldn't have come at a better time, and the hearings last week on the guaranteed student loans.

The House and Senate are going to conference this week on the budget resolution. We are all sitting with our fingers crossed waiting to see what kind of reconciliation instruction will come at us and we fully expect that the area that the Senate is most anxious to tamper with is the Guaranteed Student Loan Program.

I suppose it isn't necessary to suggest, and I know that Mr. Fox is doing it, you keep a close eye on what we are up to here over the short haul. Before we get to the serious decisionmaking in reauthorization, we have to face some of these policy decisions as a part of the budget process.

One of the previous panelists referred to the Education Amendments of 1981. I cringed. The Education Amendments of 1981 were not written by this committee. They were written by bookkeepers over in OMB. And so we claim no paternity and no responsibility for any problems that they have created. It was a totally unintentional legislative act, as far as the authorizing committees were concerned. We would have preferred to have been left out of the party when it was taking place but we were dragged along like everyone else and had very little that we could do to respond.

We hope that in reauthorization we can go back and clean up some of things that haven't worked very well.

I appreciate the fact that you have said, Mr. McCabe, that you don't come with direct recommendations. But the committee and the staff rely so much on your people down there, that you are making recommendations indirectly or passively constantly, because there is a lot of contact between our staff and the people representing you and that keeps us up to date with what is happening.

We find it easier to sometimes get overviews of what is happening in the marketing of student loans from what you have available down there than running around to a multitude of other places looking for the information. So, you have become actually a source of information that is quite important to us.

Mr. McKernan.

Mr. McKERNAN. Thank you, Mr. Chairman.

I apologize for walking out in the middle of your testimony but those of us who are newer members are more concerned about these procedural, not-too-important, I might point out, votes than some of the more senior members.

Mr. FORD. I should explain to you that it is a matter of some pique to me that somebody tries to waste 15 or 20 minutes out of the middle of important business and arrive at a preconceived conclusion. Everybody knows how it is going to turn out. It always has ever since the beginning of the country. And so, it is my rebellion, actually, against that time wasting, I refuse to go, and that then becomes a handy explanation for having less than a 100-percent voting record.

Mr. McKERNAN. Those of us who are in less safe districts than yours, Mr. Chairman, don't have that luxury.

Mr. FORD. Let me warn you, if you get a good opponent, he is going to make up your record for you anyhow.

Mr. McKERNAN. I'd like to follow up on some of the chairman's comments, and also bring the discussion a little bit back to Maine.

First, I ought to say that I appreciate the fact that Sallie Mae is interested in a wider open system than a monopoly and willing to help out with the secondary markets, which I think, at least in States like Maine, have served a good purpose.

I would like to ask you whether or not you feel that there is a need being served by a State agency like MELMAC that Sallie Mae perhaps would not have served because of the more rural nature, because of the smaller banks that are involved?

Mr. McCABE. I think I would ask Mr. Fox to comment on the mechanics of that.

Mr. FOX. Only about half of the business that is undertaken by the State agencies at this time would be in competition with us, if you will, a secondary market business. They are also primary lenders.

As a matter of fact, there are some States where there are no banks lending and only some of these institutions. And I think there is a legitimate question as to whether that is replacing funds that might be made available by the banking system or interstate banks or whatever.

As to the secondary markets, which is a little bit more than half of the moneys, there was a time a number of years ago when, because of the limited capital that Sallie Mae had and the fact that it had to earn its own way, that it did indeed put certain restrictions in place as to the loans which it would purchase and at what price. And there was a need for alternative sources of funds.

I still believe that there should be alternative sources of funds because there really can't be too much in support of postsecondary education.

To say that today these institutions provide services that Sallie Mae could not is probably not accurate.

We today could buy loans and in fact have assured the Secretary, when he was promulgating these regs, that we would be willing to buy loans at par to deal with smaller institutions, which we always have done through our community program and the like.

But the relationships that have been established and the rapport that has been established in some States probably justifies the continued existence.

There is a decentralization that has been underway in this program, from the Federal program of a number of years ago, which was not as well managed as it currently is. It had higher default rates than the current state administrative programs.

So, I suspect that in a number of States the facilities that have been put in place are worthy, do a good job, and while they could be replicated with some effort on the part of others, I wouldn't just want to dismantle them.

One other point I think is very important, the major secondary markets outside of Sallie Mae are not States. They are big banks. There are a number of big banks that are competitive around the country, competing against us. The second largest secondary market is Citicorp, for example. Chemical Bank, Wacovia Bank, others are willing to buy loans around the country.

So, to suggest that it is only Sallie Mae who might be in competition with these institutions is not accurate. There are a number of participants who are willing to commit their resources, whether it has to do with the desire for interstate banking, creating relationships with future customers, or whatever. But there is a relatively aggressive secondary market, banks, Sallie Mae and States, at this point in time in the interest rate cycle.

Mr. McKERNAN. Let me ask you a question on that, because of the Ford amendment and what the prior witnesses have felt was an extension of the original intent of that amendment.

What about the idea that some of the bigger banks are in the secondary market? Would that be a way for the Department of Education to say that in fact there was no need for tax-exempt financing, because those facilities exist?

Mr. Fox. My understanding of the amendment was that the Department had to make a judgment whether there was adequate taxable capital in the State, not whether there was adequate taxable capital within certain entities. And they have to make that kind of a decision.

To the extent that the intermediary, the State agency, is providing a valuable service, that becomes an important factor in their discussions.

To the extent that the commercial banks want to undertake to compete for that business, that might make the agency superfluous, might make us superfluous for that matter, if there was adequate capital from the banking system.

Fundamentally, this program is designed to induce private taxable capital to be primary lenders in support of education. The whole concept was that you didn't use tax revenues to make direct loans but you induce private capital in the banking system.

Over 25 years some 40 billion dollars' worth of private capital has been made available by the banking system. To the extent that that has to be augmented because there are cyclical changes where they may not be there or they require liquidity, I think there is a place for secondary markets such as our own, which is primarily 100 percent taxable, and others which are both taxable and tax exempt.

You are not always certain that there are going to be sufficient resources to meet the demand for student credit.

Now, the last 3 or 4 years there has been a unique set of circumstances that have assured that there would be those adequate sources of funds in support of the program.

You don't have to go very far back to find times when loans weren't being made. And with interstate banking probably coming, with banks having to make determinations as to how they are going to be using their resources, whether they are the financings or they are people or the computer systems, with banks having to pay taxes which they haven't paid before, they are going to be reassessing how they may allocate those funds, and it may well be that alternative sources will be necessary.

So, I wouldn't preclude any source of funds. I think we need as many sources of funds in support of higher education, postsecondary, as we can get.

Mr. McKernan. I would concur with that assessment. However, I wonder, based on your testimony that any lack of ability or willingness by Sallie Mae to provide funds in certain areas is in the past and not present, but that you do have that ability in most areas now, whether or not that could be a sufficient reason for the department to deny tax exempt funding to secondary State agencies.

Mr. Fox. One of the questions that every agency has to address are alternative sources of funds, and those alternative sources of funds for the State are not only banks within the State or financial institutions within the States, but multinational or national financial institutions, institutions such as our own, bond issuers in other States who are now going into other States, and the like.

So, the competition and the availability of funds is relatively broad and the fellow who has to fill in all of the data for the Federal Government has to assess the availability of all of those funds from all those different sources. That becomes very complex.

We are just one piece of that and we try to provide whatever information is requested of us by the States. And to the extent that the judgment is made that our source of funds was available and that precludes their issuing bonds, so be it, they made that judgment.

But I have seen no consistency in the decisionmaking to suggest that our opinions one way or the other have really carried that

Mr. McKERNAN. I take it, though, that philosophically you would subscribe to the theory that if adequate taxable sources are available that there ought not to be tax exempt issues?

Mr. Fox. That is a matter we leave with you.

Mr. McKERNAN. I know that, but we are looking to the people involved to help in how we ought to approach this issue as we go through the reauthorization.

I think it is a fairly serious philosophical question, whether or not we ought to be encouraging tax exempts or whether or not there is enough competition in the marketplace that we ought not to be encouraging tax exempts but rather ought to be moving to taxable funds. And then that gets back to my special concern in Maine. If in fact that is the case, there is the issue of the special allowance and what that would have to be in order to allow these secondary markets to compete if they are using taxable funds.

Mr. Fox. You have given Sallie Mae a number of authorities designed to support all the participants who are primary and secondary lenders in the program.

Specifically, you asked us to support the issuers of revenue bonds by giving us authority to buy those revenue bonds or to provide commitments to those issuers.

Likewise, you have given us authority to provide them taxable sources of funds.

The debate on tax exempts is much, much larger than education loans. It is one that has been going on for the last five Presidents. It is a bipartisan issue that is being addressed in a much larger context than just in student loans.

To the extent that you provide us with authority to deal both with the taxable as well as the tax exempt product that emerges in support of postsecondary education, we have done so.

As a matter of fact, we have made more accommodations of a tax exempt nature in 1984 than of a taxable nature. We are probably the biggest supporter of both in terms of the secondary market.

If it is perceived to be of too great a cost to the Federal Treasury and you, Congress makes a determination, we will endeavor to provide whatever basis of accommodation to the State agencies we possibly can to enable them to continue to provide the service.

One of the problems they have is that by being much smaller they have much higher costs proportionate to their mission, and that makes it very difficult for them in certain circumstances to borrow on a taxable basis.

But I am convinced that the investment banking community or the commercial banking community, abhoring a vacuum in which they make a commission, will not jump in with new means by which they can finance these institutions, were it to come to that.

We have already seen it. I have seen some of the major banks going out soliciting business. We know that some of the people who have testified here today have already obtained taxable financing from sources other than ourselves. Competition is beginning to fill that void.

But there will be some institutions who will not be able to borrow on a taxable basis in any case, because they are relatively small and the proportional cost to operating this small entity are always going to be much dearer than running a larger, by definition, more efficient organization.

Mr. **McKernan**. Thank you.

Thank you, Mr. Chairman.

Mr. **Ford**. Tom called my attention to the President's message when he sent us the bill in 1965, and he got down to a point where he said I recommend expanding the college work-study program, and he went on to explain why. And then he said, "Second, many families cannot cover all of the college expenses on an out-of-pocket basis. We should ensure greater availability of private credit on reasonable terms and conditions. This can best be done by paying part of interest costs of guaranteed loans made by private lenders, a more effective, fair and far less costly way of providing assistance than the various tax credit devices which have been proposed."

Now, a lot of people forget that even then we were talking about tax credits as a way to get money for people to assist members of their families go to college. That is all the mention there is in his message of the Guaranteed Student Loan Program, which became over the years one of the biggest programs of all time for higher education.

But I don't think that we have strayed very far from the idea that what we started out to do was get private capital invested in education.

And the tax-free revenue bond issue is relatively new. It came later. Actually, the State agencies are relatively new. Most of the States had to be pushed into the business by this committee. In 1976 the effort was pretty dramatic. And as you go through this, you will see that some of the State agencies have still only been in existence for 3 or 4 years. They are new to it.

When they came into it, tax-free revenue bonds had become an established way of raising capital. But the people who were in earlier were building the program without the availability of tax-free revenue bonds.

I guess Sallie Mae was the closest to a public entity that you would have found in a secondary market until the middle to late 1970's.

And so, it sounds as if you had a longstanding practice that is being interrupted by these changes, and while I don't agree with the President's proposal to remove tax-free revenue bonds entirely, I think we could be vulnerable if we tried to place too much reliance on that source of capital because it seems that the tax writers in both parties are anxious to get a bite out of the available tax-free revenue money.

It is not something that we could build the system on and expect with any great degree of certainty that it will be there 5 or 10 years down the road.

So, in the short term it might look like it is a wise place to put our eggs in the basket. But in the long term it might not prove to be.

I am surprised at how unpopular the concept itself has become in such a relatively short time. It is popular with the States and with other agencies of Government, but doesn't seem to be very popular here in successive administrations with people who attempt to manage Federal Government money policy.

So, we have to hope that we will be able to keep that source of capital as long as possible and in the same proportions as presently is the case, but be prepared to have programs that will function if something happens to it outside of the control of this committee, particularly as a part of some massive tax reform.

Everybody in the country is for tax reform until they see it, and then they start saying, but.

I have just spent a weekend back in Michigan where everybody I saw, no matter what setting—the first question is, what are you going to do to me with the tax reform. And I tell them, I can't even fill my own taxes out, so I will have to ask my accountant what we are going to do to me, and then I will ask him what we are going to do to you.

The public has their eye on it and there isn't very much chance that the people concerned about the tax-free revenue bonds are going to be front and center.

States and localities are terrified about the loss, in some States like my own, of the Federal tax deductibility of State and local taxes. They feel that is going to have a very direct and severe impact on them.

We know that it makes a big difference, that particular proposed change in the law, as to whether you live in a New York or a Michigan or another State that does tax itself and its citizens quite heavily to support its programs, or in a State that enjoys the luxury of New Hampshire with no income tax and no sales tax. They aren't touched.

But we are in the position of trying to make these policy decisions when a whole lot of other policy decisions are going on around us that will have as much impact on what the marketplace is going to be able to do for us in the future as anything we might do in adjusting one way or another or fine-tuning the provisions of the statute.

I appreciate very much having you gentlemen give us the perspective of your transition from borrowing from the Federal Government into the private sector.

I hope that that reflects, more than just the time frame that you are operating in, that indeed it is a pattern that can continue to replicate itself over many years.

With that, we will adjourn the hearing until Thursday of this week.

[Whereupon, at 12:50 p.m., the subcommittee recessed, to reconvene on Thursday, June 13, 1985.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—Volume 1

THURSDAY, JUNE 13, 1985

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Solarz, Gaydos, Gunderson, McKernan, Goodling, and Petri.

Staff present: Maryln McAdam, legislative associate; Kristin Gilbert, clerk; Rose DiNapoli, Republican legislative associate; Rich DiEugenio, Republican senior legislative associate; and Joe Flader, legislative director, Mr. Petri's staff.

Mr. **Ford.** I am pleased to call to order this hearing of the Subcommittee on Postsecondary Education of the U.S. House of Representatives. We continue our hearings begun last week on the Guaranteed Student Loan Program in anticipation of the reauthorization of the programs contained in the Higher Education Act.

We have scheduled a total of six hearings on the Guaranteed Student Loan Program because it is perhaps the most complex program authorized under the Higher Education Act. It brings together student borrowers, education institutions, and various elements of the lending community. Our discussions today will focus on alternatives to the Guaranteed Student Loan Program, PLUS loans, nonsubsidized loans, and a supplementary loan proposal put forward by our colleague on this committee, Congressman Tom Petri.

Before yielding to the other members of the subcommittee for any opening comments they wish to make, I want to make one other observation. We are under a very tough time constraint with the amount of material we have to cover in the 30-some hearings that we have set up. For that reason, we are not able to accommodate everyone who would like to be heard on every subject. However, we are able to accommodate anyone who has anything to say critically or in any other fashion. Those who are not on panels are completely free to submit to us statements or testimony or supplementary material relevant to the subject matter of the hearing. It will be put in the hearing contemporaneous with the point at which we are discussing the legislation at that time.

Mr. Goodling.

Mr. GOODLING. I have no opening statement.

Mr. FORD. Mr. Gaydos?

Mr. GAYDOS. No, Mr. Chairman.

Mr. FORD. First we have Mr. Petri.

Mr. PETRI. Thank you, Mr. Chairman.

I will ask Joe Flader on my staff, who has done a major portion of the work on this proposal, to join me.

I will try to be mercifully brief, having been able to identify quite readily with your situation. We have a fairly lengthy statement and analysis of my proposal which I would request be submitted for the record. I will just go over a summary of a few of the high points.

My proposal called IDEA, or income dependent education assistance, was introduced Tuesday of this week, and a statement appeared yesterday in the extensions of remarks section of the House record. IDEA would not replace any existing program. It is a Supplementary Student Loan Program in which repayment is related to post-school income of the borrower in a very flexible manner year by year and is collected by the IRS as part of the individual income tax.

The program is designed to be unsubsidized by the taxpayers, but it does contain an internal cross-subsidy from those borrowers with high post-school incomes to those with low post-school incomes.

I won't take the time, as I said, to describe the IDEA proposal in detail. Its basic elements are laid out on a piece of paper that you should have in front of you which is labeled "IDEA—Basic Elements." But I am offering this proposal for one simple reason: We face increasing needs for student financial aid, but we do not have increasing Federal dollars available. All sorts of individuals and groups have already testified before our subcommittee in favor of higher guaranteed student loan limits, but we all know that—that is just very unlikely to happen. In view of the deficit problem, higher education will be lucky to keep its present level of Federal funding for the foreseeable future.

Even if we did get more dollars for student aid, we should probably spend them on grants for students from poor families rather than on loans. At the same time, State loan programs that depend on tax-exempt bonds could be knocked out in a tax reform bill.

So, how are we to meet the increased demand for loans? We can rely on the present ALAS Program, whose terms are inflexible, harsh, and generally unattractive, or we can try something different. That is where IDEA comes in. Its terms are far more flexible and favorable because its basic structure is efficient and it uses the cheapest available source of capital. At present, its T-bill plus 2 percent standard interest rate would be just over 9 percent. In addition, its payments vary with income each year, so it accommodates changes of fortune extremely flexibly, leaving little reason for defaults, since it is automatically rescheduled. Even the heaviest borrowers pay no more than 15 percent of income in any one year, and that is about a third less than the average difference in income between those with some higher education and those with none. The program also contains a loan consolidation feature whereby guaranteed student loans and NDSL's can be converted into IDEA loans in order to bring the borrower's entire loan repayment obligations under the same 15 percent of income ceiling. All in all, this should be an attractive option for students.

If you will pardon the pun, this is not a new idea. In fact, it has been around for over 30 years. Several prominent study commissions and others have recommended it in the past. But unfortunately, all past proposals were presented in a fairly sketchy fashion and suffered from at least one basic structural flaw that made them unworkable in practice. I can understand why that was so because it in fact has taken me and Joe and others in my office literally hundreds of hours over a period of years to work out the details of this proposal, and others before us evidently have been unable to devote this kind of effort to that.

At any rate, I think you will find that IDEA is completely different from past income-dependent loan proposals. I hope you will consider it as such.

Let me make one final point. One of the things that is new about IDEA is the possibility of using zero coupon bonds to finance it. Four years ago, when I started work on this project, zero coupon bonds, which pay no interest until maturity and are sold at a deep discount from face value, were little known. However, today they are being created out of normal Treasury bonds by brokerage houses and sold by the billions of dollars worth. The Treasury Department is considering issuing its own. Using such instruments, IDEA can be implemented at virtually no cost to the Treasury even for start-up expenses, because there is no cash flow going out on a zero coupon bond. You don't pay it until the bond matures. At that point, we should have repayments coming in from these student borrowers.

Even if the administration objects to this approach, however, I hope and trust that it will view startup expenses for an unsubsidized program in a different light than similar expenses for a subsidized one. In general, I have every reason to believe we can work with the administration to make IDEA acceptable on all sides.

We have received some pretty good indications that they may end up supporting this proposal in some form. I think that would help create a very good environment for the overall work of this committee to move forward without running into some snake at some point later in the process.

Thank you very much for your attention. I look forward to working with you on the major project we are undertaking.

[Prepared statement of Congressman Thomas Petri follows:]

PREPARED STATEMENT OF HON. THOMAS E. PETRI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman, a member of Congress does not often testify before a subcommittee on which he sits, but I appreciate the opportunity to say a few words about my proposal for income dependent education assistance, or IDEA for short. I have more extensive materials I would like to submit for the record.

IDEA would not replace any existing programs. It is a supplementary student loan program, in which repayment is related to post-school income of the borrower in a very flexible manner year by year and is collected by the IRS as part of the individual income tax. The program is designed to be unsubsidized by the taxpayers, but it does contain an internal cross-subsidy from those borrowers with high post-school incomes to those with low post-school incomes. I won't take time here to describe IDEA in detail. Its basic elements are laid out on a piece of paper you should have in front of you labeled "IDEA—Basic Elements."

I am offering this proposal for one simple reason. We face increasing needs for student financial aid, but we do not have increasing federal dollars available. All sorts of individuals and groups have already testified before our subcommittee in favor of higher GSL loan limits, but we all must know that that is just not going to happen. In view of the deficit problem, higher education will be lucky to keep its present level of federal funding for the forseeable future. And even if we did get more dollars for student aid, we should probably spend them on grants for students from poor families rather than on loans. At the same time, state loan programs that depend on tax exempt bonds could be knocked out in a tax reform bill.

So how do we meet the increased demand for loans? We can rely on the present ALAS program, whose terms are inflexible, harsh, and generally unattractive, or we can try something different. That is where IDEA comes in. Its terms are far more flexible and favorable because its basic structure is efficient and ituses the cheapest available source of capital. At present, its T-bill plus 2% standard interest rate would be just over 9%. In addition, its payments vary with income each year, so it accomodates changes of fortune extremely flexibly, leaving little reason for defaults. Even the heaviest borrowers pay no more than 15% of income in any year, and that is about a third less than the average difference in income between those with some higher education and those with none. The program also contains a loan consolidation feature whereby GSL's and NDSL's can be converted into IDEA loans in order to bring the borrower's entire loan repayment obligations under the same 15% of income ceiling. All in all, this should be an attractive option for students.

I have to acknowledge, if you will pardon the pun, that this is not a new idea. In fact, it has been around for over 30 years, and several prominent study commissions and others have recommended it. Unfortunately, all past proposals of which I am aware were presented in a fairly sketchy fashion and suffered from at least one basic structural flaw that made them unworkable. I can well understand why that was so, because it has taken me and my office literally hundreds of hours over a period of years to work out the details of IDEA, and evidently others before us have been unable to devote that kind of time to the effort. At any rate, I think you will find that IDEA is completely different from past income dependent loan proposals, and I hope you will consider it as such.

Let me make one final point. One of the things that is new about IDEA is the possibility of using zero coupon bonds to finance it. Four years ago when I first started working on this project, zero coupon bonds, which pay no interest until maturity and are sold at a deep discount from face value, were little known. Today, however, they are being created out of normal Treasury bonds by brokerage houses and sold by the billions of dollars worth. Using such instruments, IDEA can be implemented at virtually no cost to the Treasury even for startup expenses. Even if the administration objects to this approach, however, I hope and trust that they will view startup expenses for an unsubsidized program in a different light than similar expenses for a subsidized one. In general I have every reason to believe we can work with the administration to make IDEA acceptable on all sides.

At this point I'll stop to leave time for any questions. Thank you very much for your attention.

IDEA—Basic Elements

LOAN LIMITS

$2,500 for 1st year undergrad, $3,500 for 2nd year, $5,000 for 3rd & later years, and $10,000 per year for graduate students, less amounts borrowed under other federal programs; cumulative limit of $40,000

INTEREST

Interest charged to borrowers' accounts each year at average 91-day T-bill rate for that year plus 2%; no extra origination fees

No in-school interest subsidy or in-school interest payments; interest accrued while in school is added to principal for later payment

REPAYMENT

After leaving school, each year borrowers find repayment amounts from simple tables with incomes on one axis, maximum account balances on the other axis; no one pays more than 15 percent of income in any year

For given account balance, standard payment (made by singles between $26,500 and $31,500 and couples between $31,500 and $40,500) would pay off account balance in 12 years if T-bill + 2% rates average 10%

For given account balance, payment at lowest incomes is a bit less than 1/2 the standard payment, and annual payment at highest incomes is 11/2 times the standard payment; most people repay loans in 12 to 18 years

Progressivity of tables dervied from post-'83 income tax rate schedules

If GSL or NDSL loans are converted to IDEA, interest subsidy is lost but the 15% of income limit on annual payments applies to converted loans;

Repayment ends whenever account balance is paid off at actual T-bill plus 2% variable rates charged to account, or upon death or disability, except:

Any unpaid balance is forgiven after 25 years of repayment, and

Borrowers must make payments for at least 12 years, except: Borrower is finished paying in less than 12 years when cumulative payments pay off account at effective variable interest rate (called "buyout rate") of T-bill plus 4 1/2%.

CAPITAL

Initial capital from bonds sold by state guarantee agencies and SLMA; Principal and interest paid from IDEA Trust Fund, which receives borrowers' repayments; Trust Fund won't need to borrow from Treasury in early years if zero coupon bonds are used.

INCOME-DEPENDENT EDUCATION ASSISTANCE ACT SYNOPSIS

The IDEA Act creates a new, supplementary student loan program in which repayments are determined by post-school income of the borrower and are collected by the IRS as part of the individual income tax. The program avoids taxpayer subsidies but does contain an internal cross-subsidy from those with very high post school incomes to those with very low incomes. Essential features follow:

Students may borrow up to $40,000 total ($2,500 for 1st year undergraduate, $3,500 for second year, $5,000 for third and later years, $10,000 per year graduate), but any amounts borrowed under other federal programs are subtracted from these limits. The $40,000 limit is phased out between age 35 and age 55 so that borrowers do not assume obligations disproportionate to their remaining earning years.

Borrowers' accounts are charged interest each year at the average 91-day T-bill rate for the year plus 2%, but in no case more than 14%.

For a given account balance, the annual repayment amount due for a given year varies according to income. The progressivity is derived from the income tax rates applicable to single and married taxpayers.

Borrowers with higher post-graduation incomes will pay higher effective interest rates for their loans than lower-income borrowers. For highest income borrowers, the IDEA interest charge will in any case be below that commercially available, while lowest income borrowers will have any unpaid portion of their loans forgiven after 25 years. A majority of borrowers will pay off loans at the T-bill plus 2% rate in 12 to 18 years.

No borrower will be released from her obligation until she has been in repayment for 12 years or repaid the loan at a variable rate of T-bill + 4 1/2%.

Borrowers may convert GSL and NDSL debt to IDEA loans of the same date.

No borrower will owe more than 15% of his income for IDEA repayments in any year. Along with the progressivity in the normal repayment schedules, this assures borrowers that their payments will be manageable, regardless of job changes, unemployment, retraining, homemaking, etc.

No means tests restrict IDEA borrowing. They would not reduce government costs and would prevent participation by future high income earners.

IDEA repayment obligations may not be discharged in a bankruptcy proceeding but may be rescheduled or forgiven for a bankrupt person by the Secretary of Education.

Initial capital comes from federally guaranteed bonds sold by guarantee agencies and repaid from borrowers' repayment amounts deposited in an IDEA Trust Fund. If zero coupon bonds are approved by Treasury for this purpose, no appropriations will be required; otherwise appropriations will be needed in the first years to pay interest on the bonds until repayments start coming into the Trust Fund.

Schools submit machine-readable lists of borrowers to Education for approval and establishment of computerized accounts that can be cross-checked against new loan requests and IRS tapes to ensure compliance.

Borrowing limits and repayment schedules are indexed for inflation.

Income-Dependent Education Assistance (IDEA): taxpayers filing joint returns

Income:	5000	10000	15000	20000	25000	30000	35000	40000	50000	75000	100000	150000
(1) progressivity factor*	0.429	0.504	0.589	0.796	0.843	0.947	1.000	1.000	1.116	1.200	1.493	1.500
(2) annual payment per $10,000 maximum account balance (MAB)**	$630	$740	$865	$1036	$1238	$1292	$1484	$1488	$1638	$1879	$2191	$2202
(3) percentage of income*** payable per $10,000 MAB	12.6	7.4	5.8	5.2	4.9	4.6	4.2	3.7	3.3	2.5	2.1	1.5
(4) maximum annual payment / MAB amortizable at rate in (6)****	$750 11908	$1500 20270	$2250 26056	$3000 20958	$3750 30291	$4500 32329	$4750 33267	$6000 42014	$7500 52517	$11250 78776	$15000 105135	$22500 157552
(5) years required to pay each loan at indicated actual interest rates charged on IDEA loans 8% 10% 12% 14%				15	14 17	11 13 17	10 12 15 24	10 12 15 24	9 10 12 15	7 8 9 10	6 6 7 8	6 6 7 8
(6) maximum effective interest rate paid at end of 25 years notwithstanding rates charged*****	4.00	5.50	7.00	9.25	11.50	13.25	•	•	•	•	•	•
(7) maximum effective interest rate paid at end of 12 years (or shorter period if 2½% over standard interest rate)******						9.00	10.00	10.00	12.25	15.50	19.25	19.50

Income-Dependent Education Assistance (IDEA): unmarried taxpayers

Income:	5000	10000	15000	20000	25000	30000	35000	40000	50000	75000	100000	150000
(1) progressivity factor*	0.467	0.544	0.707	0.847	0.971	1.000	1.066	1.142	1.249	1.466	1.570	1.500
(2) annual payment per $10,000 maximum account balance (MAB)**	$685	$796	$1037	$1249	$1425	$1466	$1565	$1677	$1833	$2155	$2202	$2202
(3) percentage of income*** payable per $10,000 MAB	12.6	8.0	6.9	6.2	5.7	4.9	4.5	4.2	3.7	2.9	2.2	1.5
(4) maximum annual payment / MAB amortizable at rate in (6)****	$750 10949	$1500 18797	$2250 23132	$3000 24135	$3750 26252	$4500 31510	$4750 33267	$6000 42014	$7500 52517	$11250 78706	$15000 105335	$22500 157522
(5) years required to pay each loan at indicated actual interest rates charged on IDEA loans 8% 10% 12% 14%			19	13 17 30	11 13 16	10 12 15 24	9 11 13 17	8 10 11 14	7 8 9 11	6 7 7 8	6 6 7 8	6 6 7 8
(6) maximum effective interest rate paid at end of 25 years notwithstanding rates charged*****	4.75	6.25	9.25	11.75	13.75	•	•	•	•	•	•	•
(7) maximum effective interest rate paid at end of 12 years (or shorter period if 2½% over standard interest rate)******					9.50	10.00	11.25	12.75	14.75	18.75	19.50	19.50

* based upon income level of borrower; derived from income tax rate structure and specified in Income-Dependent Education Assistance Act of 1985
** MAB is highest amount of unpaid principal and accrued interest during the history of a borrower's IDEA obligation account
*** "income" is Modified Adjusted Gross Income (MAGI) -- Adjusted Gross Income plus certain additional preference income
**** 15% of MAGI maximum payment; indicated balance is fully amortized at the end of 25 years if the maximum payment is made each year
***** this figure is relevant for low-income borrowers whose annual payment may not fully pay off loans within 25 years (after which they are forgiven) at the actual applicable rates; if payments are limited by the 15% of income ceiling, the 25-year effective rate will be lower
****** borrowers are released from their loan obligations after 12 years if they have repaid loans at the applicable interest rates, and are released at an earlier date if they have repaid all loans at 2½% over the normally applicable rates

• an individual in repayment status for more than 12 years will never pay more than the actual interest rate charged each year on IDEA loans, which is limited to 14% in any year; the "•" symbol indicates potential effective rates in excess of 14%, and in these cases the balance indicated in (4) would have been repaid in a period shorter than 25 years at even the 14% maximum rate

NOTE: interest rates are rounded to nearest ¼%; years are rounded to nearest year

[From Congressional Record, June 12, 1985]

HON. THOMAS E. PETRI OF WISCONSIN, IN THE HOUSE OF REPRESENTATIVES, WEDNESDAY, JUNE 12, 1985

Mr. PETRI. Mr. Chairman, I would like to discuss H.R. 2733, the Income-Dependent Education Assistance Act of 1985, which I introduced recently. This legislation would establish a supplemental student loan program that would entail little or no taxpayer subsidies.

IDEA would be an important source of loan capital to students—particularly those in graduate school—in a time of increasing education costs. Annual repayment amounts under IDEA vary with annual income of borrowers. Borrowers whose higher incomes reflect higher returns on their investments in education would share part of those returns with all IDEA borrowers by paying higher effective interest rates on their loans, thereby funding lower effective rates paid by the lower income borrowers.

There are subsidies in IDEA, but they would be targeted to those who need relief from educational debt burdens: those with low post school incomes. These subsidies are related to ability to pay, and their cost is covered by charging a premium above the standard IDEA interest rates on loans held by those with high post school incomes. Despite the high-income premium, the highest effective interest rate charged on IDEA loans would be less than that on unsecured personal loans in the private market. Thus, those who anticipate high future incomes would not be discouraged from participating.

Higher education represents in part consumption; an education yields personal satisfaction and a higher quality of life for the student. Yet education also represents an investment. Students are investing in human capital, and they expect returns on their investments in the form of higher future incomes. This is particularly true in the case of graduate education, the financing of which is the primary, but not exclusive, focus of IDEA.

Under IDEA, the Government backs such investments in human capital and in exchange receives a participating interest in the returns to that capital. In effect, students borrow against their future income streams. On an individual basis, students cannot finance education this way because they cannot pledge their human capital as collateral and each individual cannot guarantee a particular level of return on his or her investment. But collectively financing education loans on the basis of pooled risk and return on investments can be a sound governmental approach to student aid. The specifics of the IDEA program take that sound approach from theory to practice.

IDEA allows a student to borrow up to $2,500 for a first year of undergraduate education, $3,500 for a second year, $5,000 for subsequent years, and $10,000 per year for graduate education (or the costs of attendance, whichever is less). There is a lifetime limit of $40,000. Borrowing under other title IV student loan programs would count against IDEA annual and lifetime limits. Most undergraduates eligible for GSL loans would probably choose the subsidized rates of GSL rather than the income-dependent rates of IDEA. At the graduate level, IDEA borrowing limits are twice those of GSL so past and current GSL borrowers as well as those not eligible for GSL loans should find IDEA an attractive source of loan capital.

A student applies for an IDEA loan through his school, and the school sends machine-readable lists of applicants to the Department of Education. For new borrowers, DoE would establish computerized accounts by taxpayer identification number. Interest is charged on the outstanding balance of each account annually at the average 91-day T-bill rate for the year plus 2 percent. An annual statement is mailed to the borrower informing him of the status of his obligations.

Upon leaving school and entering repayment, borrowers determine their annual repayment amounts in conjunction with the filing of their individual income tax returns. The procedure would be similar to that used by self-employed individuals who pay social security taxesthrough the IRS. IDEA loan collection will be just a one line/one form addition to something that IRS already does. Although the IDEA bill uses the IRS for collection of repayments, with less efficiency this could also be done, using verified Form 1040 information, by the Education Department, SLMA, or even the whole SLMA/State guarantee agency structure.

Various tax preference items are added to adjusted gross income as currently defined in the Tax Code. A simple chart with income on one axis and account balances on the other indicates the amount of repayment due. IDEA payments will have the same status as personal income taxes due, and are payable through estimated tax payments or additional withholding from wages. As is currently the case, borrowers would be subject to no penalties for underpayment of taxes due, including IDEA payments, as long as they have withheld at least as much as their tax liability the previous year or at least 85 percent of the amount owed in the current year. The IRS would have the authority to collect delinquent IDEA payments. This collection mechanism will reduce default rates by making avoidance of payment more difficult. The income-adjusted payments that require smaller annual payments for lower income borrowers will also reduce defaults.

There is a separate IDEA repayment chart for each class of taxpayer, that is, single, joint return, and so forth. A student borrower would know what his annual repayment obligation will be for any given combination of account balance and future income level. Therefore, creditors would be able to adjust their estimates of disposable income for the purpose of making auto loans, mortgages, or other extensions of credit. Uncertainty over educational debt burden would not deter other lending.

The charts are based on an assumed average interest rate of 10 percent and a base amortization period of 12 years at an income of between $26,150 and $31,450 for single people and $32,550 and $40,500 for joint returns. Thus, people in those income ranges will pay off their loans in about 12 years if the interest actually charged to their accounts, that is, T-bill plus 2 percent, averages 10 percent per year. The actual payment at the above income levels is $1,468 per $10,000 of account balance. As shown in the accompanying charts, lines 1 and 2, the annual payment per $10,000 of account balance at any other income is determined by multiplying $1,468 by the progressivity factor for that income level. The progressivity factors, ranging from .429 to 1.5, are derived from ratios of post-1983 marginal tax rates for different categories of taxpayers. Thus the progressivity inherent in the IDEA annual repayment formula is based on that found in ordinary income tax rate schedules.

Several other principles govern repayment. First, no one is charged more than 15 percent of income in any year. Second, borrowers are excused from all further obligation when they have paid off their loans at the standard interest rates; that is, T-bill plus 2 percent, or upon death, disability, or the completion of 25 years of repayment. Everyone must make the annual payment required for his income level for at least 12 years unless the loan has been repaid earlier at the standard T-bill plus 2 percent interest rates plus an additional 2 1/2%.

The basic elements of the repayment system, then, are: First, annual repayment amounts that are progressive with respect to income and directly related to individual borrowing history; second, standard interest rates of T-bill plus 2 percent; third, a 12-year minimum repayment period modified by a buy-out interest rate of 2 1/2% over the standard rate; fourth, a 15 percent of income cap on annual payment obligations; and fifth, forgiveness of remaining debt after a 25 year maximum repayment period. Together, these elements produce a system in which borrowers face an income-dependent sliding scale of effective interest rate charges on their IDEA obligations.

Since IDEA loan repayments are directly related to ability to pay, the system is extremely flexible. It automatically reschedules loans in the event of unemployment, career changes, periods of child care, or other causes of income fluctuation. It offers protection to the person who might hesitate to pursue a degree because she is unsure that her education investment will pay off. It also enables an expensively educated person to choose a low-paying job for a short time or permanently without undue hardship. For example, a young doctor could choose to practice community medicine in a poor rural area without having his education debts push him into a suburban specialty practice.

A logical way to finance a program like IDEA, whose returns are delayed but secure, is through the sale of federally guaranteed bonds. The IDEA proposal uses the Department of Education and State guarantee agencies backed up by the Student Loan Marketing Agency (SLMA) to collect loan request estimates from schools, sell the bonds, and channel the proceeds to students through their schools. The general form of these bonds would be specified by the Treasury. I believe that zero-coupon bonds sold at their discounted value and requiring no annual interest payments to bondholders would be an appropriate financing vehicle. The bonds would be repaid upon maturity from the IDEA loan trust fund. The trust fund will grow as borrowers' annual payments are channeled into it. When the initial zero-coupon bonds come due, the trust fund could pay them off.

The scale of these bonds would not affect the capital markets unless total investment in higher education were increased by the program itself or the program increases other consumption and reduces savings. Higher education is primarily a capital investment in terms of the sources of funds used to finance it. If the education financed by IDEA were not paid for with IDEA bonds, the capital would come from other sources, either governmental appropriations, personal savings, or private lending institutions.

The IDEA program should not require significant general revenue subsidies. In the first place, the standard interest rate charged to borrowers (T-bill plus 2%) should cover the average cost of capital to the program, depending on the maturities of IDEA bonds and the average yield spread between these instruments and T-bills. A cash flow analysis of the IDEA demonstrates that the longest IDEA bond maturities necessary would be 8 or 9 years.

Second, as repayments are future income tax obligations, losses due to bankruptcy or default should be negligible. There is also less cause for default since payment burdens decrease automatically with any decline in income.

Third, the higher effective interest rates charged higher income borrowers offset the forgiveness provisions that effectively reduce interest rates paid by lowest income borrowers. Because IDEA borrowing will be primarily at the graduate-student level, the incomes of IDEA borrowers as a group would be higher than those of the general, or even the college-educated population. In fact, there should be more premium interest payers than subsidized borrowers, creating extra returns to the trust fund to defray administrative expense. IDEA does cap the effective interest rate faced by high-income borrowers at a level that is below that which they would pay on a commercial loan. Therefore, the modestly higher effective interest rates faced by those who anticipate higher post school incomes should not discourage them from electing the IDEA option.

Participation by future high-income earners is encouraged by the absence of any means test in the IDEA program. Students from higher income families tend to have higher-than-average incomes once they join the work force. Under IDEA, they will, on average, pay higher-than-average effective interest rates and allow IDEA to better cross-subsidize borrowers with low incomes. The lack of a means test also simplifies administration of IDEA.

The subsidies incorporated in IDEA are carefully controlled. The T-bill plus 2 percent interest rate charged on IDEA loans makes abuse of the program for the purposes of noneducational investments or purchases unlikely. All borrowers make at least a minimum annual payment. Very few will qualify for forgiveness of any IDEA loan principal, although their effective interest rates may be below T-bill plus 2 percent. For single taxpayers, even $15,000 earners with maximum account balances up to $23,332 pay off their loans in 19 years at 8 percent—if 8 percent is the T-bill plus 2 percent rate over that period—and will have paid effective interest of 9.25 percent at the end of 25 years—if the T-bill plus 2 percent rate has been above 9.25 percent—at which time remaining IDEA debt would be cancelled. At $30,000 income, the maximum annual payment of $4,500 will amortize a $31,510 balance over 12 years at 10 percent interest and cover 10 percent interest payments on up to a $45,000 loan balance. The 15 percent of income cap on annual payments would not result in much subsidy at this level—only automatic rescheduling and extension of repayment obligations. Even at a $10,000 income, the annual payment of $798 on a $10,000 account balance results in an effective interest rate of 6.25 percent over 25 years; only when the account balance exceeds $18,797 at this income level does the subsidy further reduce the interest rate. IDEA does not give anyone a free ride, only an easier, custom-tailored one that recognizes ability to pay for Government-supplied capital.

Of course, a major influence on the balance of IDEA will be the average levels of interest rates in the economy over the long term. Here again, IDEA employs a conservative assumption in basing the repayment tables on an assumed average interest rate of 10 percent. This rate implies 91-day T-bill rates of 8 percent. This is consistent with current economic projections. In historical terms, 8 percent is a high level. If 91-day bills average 8 percent over the next 25 years, the Government will have been doing a very poor job of managing the economy. If T-bills average a point or two less, borrowers' accounts will be charged only 8 or 9 percent interest, and borrowers will repay their loans in shorter periods of time. On the other hand, if T-bills go over 12 percent, few borrowers will repay at the actual cost of IDEA loan capital, since no more than 14 percent interest can be charged to borrowers' accounts—the same limit that now exists in the ALAS and PLUS programs. To that extent, borrowers are protected against runaway inflation and all taxpayers will retain an interest in keeping IDEA unsubsidized by supporting responsible fiscal and monetary policy. In general, both the Government and IDEA borrowers will reap the rewards of reasonable interest rates and inflation.

IDEA provides for consolidation of other Title IV student loans, including GSL's and NDSL's. This provision allows borrowers under those programs, at their option, to convert their other loans into IDEA loans in order to receive IDEA's extended payment terms and 15 percent of income annual payment ceiling. This voluntary decision would involve a sacrifice of the interest subsidies of other loan programs but a reward of more manageable annual payments. The potential bonus to the Government would be a recapturing and elimination of its obligations to subsidize the converted loans.

IDEA is a carefully crafted proposal that can meet a pressing need for additional higher education financing at no cost to the taxpayers. It is open to all, extremely flexible, and targets assistance equitably to those who most need it in the amount that they need it. While it may appear complicated in its statutory form, the complex provisions create a relatively simple program from the standpoint of both individual borrowers and the agencies that would administer IDEA.

I urge my colleagues to give IDEA serious consideration, both in its current form, and as a framework for integrating other higher education financial assistance programs. IDEA's progressive repayment scheme does not require the use of an unsubsidized T-bill plus 2 percent interest rate; any other rate could also be used as a means of directing larger or smaller subsidies to those with greater or lesser need. Fellowships, grants, forgiveness provisions, or other techniques could be used in conjunction with IDEA. The targeted subsidies of IDEA offer savings relative to a flat subsidized rate that ignores future earnings, and that savings could help fund other student assistance mechanisms.

Mr. Chairman, I submit for the record a chart of the repayment schedule, a synopsis of the bill, and a summary of its basic elements.

Mr. **Ford**. Thank you very much. I want to first compliment you on the amount of time and effort that you have put into this. I know from our previous experience together on writing higher education legislation that you take the task before us very seriously.

I assume from the description of your program you mean this to be supplemental to the Guaranteed Student Loan Program.

Mr. **Petri**. Right. It would not replace anything, for a couple of reasons. One, we don't really want to try to take something that is working and replace it with something that is untried. We think it better to authorize it and hope that, if it works well, it will grow and be adapted to a need out there rather than taking away something and replacing it with an unknown.

Mr. **Ford**. Would it be fair to describe these as market rate loans?

Mr. **Petri**. Yes, but not quite. It depends what you mean by market rate loans. They would be——

Mr. **Ford**. Well, you use the T-bill plus 2 as a way to determine rate——

Mr. **Petri**. Right.

Mr. **Ford** [continuing]. It's a fairly good proxy.

Mr. **Petri**. Yes. Well, if you were to be an ordinary consumer borrower, you would discover on your credit card you are paying T-bill plus about 9 or 10. And if you go down and borrow for a car and you don't get one of these low subsidized things from General Motors or whatever, you would probably be paying T-bill plus 5 or 6.

Mr. **Ford**. Those are consumer interest rates——

Mr. **Petri**. Right.

Mr. **Ford** [continuing]. Not what real people pay.

Mr. **Petri**. Right. But real people who are students, if they don't have a Federal program and are creditworthy, would have to go out and, in effect, pay a consumer loan rate.

Mr. **Ford**. That's right.

Mr. **Petri**. So we argue that that avoids the adverse selection problem that we have had in the past. If someone expects he is going to be a brain surgeon but he needs capital, why would he go and borrow from our program when he would be stuck with very high repayments? The answer is that he will be stuck with somewhat higher repayments than under GSL, but he would still be slightly better off than if he went out and borrowed at a consumer rate. And that creates an opportunity to overcome the adverse selection that previous proposals had, where you could not really make a serious case that they would in fact be without taxpayer subsidy, because those expecting to make higher incomes after school would not participate. We feel that this program meets that.

Mr. **Ford**. To the degree that there is any subsidization of interest directly or indirectly, it would be by the State agency, would it not? The State agency is borrowing money and paying *X* for it, and it is lending it at *Y*. And it gets a portfolio out there that produces an average yield of *Z*. In that portfolio it has got money that costs it varying amounts like a bank. If there is indeed a period of time in which your measure of interest is below the market rate of interest, it would be that entity that would be absorbing the interest difference, not the Federal Government?

Mr. **Petri**. We think it would be very unlikely that that situation would occur.

Mr. **Ford**. They should be very close.

Mr. **Petri**. Yes, because T-bill plus 2 would float around. It is not a fixed amount, because T varies depending on the market.

Mr. **Ford**. I noticed one other thing that puzzled me. Any unpaid balance is forgiven after 25 years or if the borrower dies or in disabled.

Mr. **Petri**. Well, it they die or are disabled, they can't pay it anyway.

Mr. **Ford**. That one doesn't bother me.

Are these going to be on a 25-year or longer repayment system?

Mr. **Petri**. Well, you see, what we have done is, since it's income contingent and since, if you don't have any income, you're not paying and you still have that obligation out there, it's automatically rescheduled. Normally, it would be on about a 12 to a 15-year repayment system. But if someone takes vows of poverty and becomes a religious or something like that and has no earned income, then that rescheduling would continue until 24 years; then it would be forgiven.

Otherwise, you would have a default problem.

Mr. **Ford**. How income contingent do you make this? You actually would forgive a person from making payments during a period when their income was below a certain level?

Mr. **Petri**. Yes. It is automatically rescheduled. That is one of the reasons we have a default rate under current programs. It's not that people don't want to pay or anything else. It is that they are in transition when they get out of school. This automatically takes care of that, because if they have no income, they don't have to pay and they are not in default. But they do accrue interest. It is automatically rescheduled, in effect. It would be as though they were to have to go through a bureaucratic process of calling up and saying, I'm going to be out of work for a year because I have decided to go into a retreat or something; so, could you reschedule my loans and I'll start paying in a year. And they then do all the paperwork.

It is unnecessary. If they file a tax return that shows no income, they don't have to pay anything. And their account takes that into consideration, but it extends the period that they have to pay and accrues the interest.

Mr. Ford. Only somebody from Mr. LaFollette's State could come up with something like that.

Bill?

Mr. Goodling. Thank you, Mr. Chairman.

I, too, want to congratulate my colleague for a different approach to a problem that is going to be facing us probably more and more.

I have two quick questions. If you cannot work out this zero coupon bond business, then what kind of startup costs are we talking about, and how quickly can that be turned around?

Mr. Petri. That is difficult to estimate because it would depend on the size of the program.

It is not hard to figure out once you know how many dollars are involved because then it is a mechanical process of maintaining it. But it would be a matter of having to figure out some sort of a mechanism, I suppose, for the Education Department or someone else to control how the program grew so that it would stay within budget. I don't think that would be that difficult. It could be limited to certain types of categories of students initially if we were worried about it mushrooming too fast and having too large a startup cost.

Mr. Goodling. You were gearing more toward the graduate student anyway, weren't you?

Mr. Petri. That's the community that feels the greatest present need for a program of this sort.

Mr. Goodling. The other question is, I am assuming that you had conversation with the IRS. How do they feel on this collection business?

Mr. Petri. They don't like that. The Treasury Department naturally has a traditional interest against two features of this proposal. One, they don't like any additional Government borrowings, off budget or on budget. Second, they don't like using the IRS for anything other than its primary function of collecting revenue for the Government.

We feel that both those can be overcome. No. 1, if people do go to school and if they don't have the money, there is going to be borrowing in the society anyway. It is a question of where it occurs, but to argue that somehow it is going to inflate or affect interest rates is foolish, because that demand is there. We are just trying to accommodate it and create access for education.

Mr. Ford. We were informed when Tom introduced his bill that IRS objected most strenuously to being used as the collector. They always do that. So, since this bill has been jointly referred to the tax writing committee and to our committee, it is my intention to get a letter to the IRS immediately and ask them to put in writing their specific problems with Tom's legislation so that we don't have a whole lot of theories for him to fight with. Then we will give him a chance to fight with their specifics.

Mr. Petri. On that second point, let me just say this. It is really not crucial at all to the proposal, because my State and many other States and also under other programs collect revenue using Federal tax returns. All you do, if you can't use that mechanism, is then have some office in the Education Department or somewhere else say: send in a copy of your return with this cover form and a check for what you owe, or you can have it on a separate monthly collection basis.

If you are looking at it, it would just be simpler to do it where they are already doing it rather than having to deal with two separate offices. But it is no insurmountable barrier in any way. It is just that it would be more convenient and more efficient to do it with the IRS. Or maybe we could even figure out some way where they would not officially be doing it, but it would be done under a little office in their building with a separate name or something.

Mr. GOODLING. Thank you, Mr. Chairman.

Mr. FORD. I should mention, Tom, that over the years from time to time both the Carter administration and this administration have had people in it that have the bright idea that, if we just have IRS collect the loan when it goes in default, that will be easy. And they kick like a mule when we ask them how that could be worked out. They just don't want to get into the business of collecting it. They feel that, every time they acquire a new way in which to use your tax return, that it becomes a further discouragement to people to file tax returns and that it has a tendency to cause more and more people to try to get away without filing.

Mr. PETRI. That's right. One point, though, that distinguishes this program from the normal student loan is that this is automatically rescheduled. So, they are not trying to squeeze blood out of a turnip with this, since you don't have to pay if you don't have the income there. That makes it different.

Mr. FORD. Thank you.

Mr. Gaydos?

Mr. GAYDOS. Thank you, Mr. Chairman.

I would just like to state for the record that the mere presence of our colleague is very refreshing. It indicates his intense and, I believe, sincere interest in the subject matter. I think he should be congratulated.

I feel that your program as you have presented it has some merit to it, bears some good study. It has some great potential. It does take a different approach. As pointed out by my colleague from Pennsylvania, the IRS aspect of it is most interesting and the collection agency.

I have no particular question.

Mr. PETRI. Thank you.

Mr. FORD. Mr. Gunderson?

Mr. GUNDERSON. Thank you, Mr. Chairman.

Tom, we always knew you were the smartest one in the delegation from Wisconsin, and now you've proven it. You have me confused with all your numbers here, I'll tell you that.

Let me just ask a couple of questions. One, is it your assumption that those with very, very low incomes really are forgiven the obligation to pay?

Mr. PETRI. No, if people have little or no income, they would have no obligation in that year to repay the loan. But that loan would still be an obligation. It would accrue interest. They would have to repay it. However, if they continued having no income for

25 years, then their loan balance would be forgiven. So, presumably, they would be about 50 years old or so.

Mr. GUNDERSON. I am thinking of people like the clergy, artists, that type.

Mr. PETRI. Yes.

Mr. GUNDERSON. Is that a problem here?

Mr. PETRI. You just don't know when some person is 18 and going into college with any great certainty what their income is going to be over the next 25 years. The only thing you do know for sure is that, if they don't make any money, they are not going to be able to pay any loan.

Mr. GUNDERSON. If that's going to be financed, then really the upper-income person is going to have to pick up that cost——

Mr. PETRI. Right. The upper-earning, upper-income participant in this program would end up picking up the cost. We argue that it would nonetheless be in their interest to participate in this program because, while they are picking up that cost, they are still paying a lower rate of interest and paying less back on their loan than they would if they borrow it from a bank.

Mr. GUNDERSON. That is my next question. If you received the GSL, you have an 8-percent loan. Look at your chart's numbers. Let's assume that I am an unmarried taxpayer and I am looking at a $25,000 income. I would have a 13.75-percent effective interest rate, correct?

Mr. PETRI. Right.

Mr. GUNDERSON. That seems to me to be a real difference.

Mr. PETRI. That is the maximum possible. But if you couldn't borrow from Guaranteed Student Loan, if you had to go down to your friendly Lacrosse Savings and Loan, you could call them up and ask them what you would be paying, and I know on your credit card you are paying 18 percent right now. Consumer loans are in the 12- to 16-percent range. And this is the maximum you would pay, 13-plus, so you would be assured of no more than that under this program, whereas you would be paying more at the bank.

We are not arguing that it is a better deal than a Government subsidized program. We are just arguing it is a better deal than what you could do if there were no Government program. And that would give you an interest. If you don't need the money, if you can borrow from your dad, or if you can borrow from a friend or something like that, why should you be borrowing from the Government anyway, really. But if you can't, if you aren't creditworthy, you are 22 years old and the bank won't loan to you, we want someone to be able to loan it to you. If you really need the money, this gives you an interest to participate in this program rather than going to a bank. It will carry the people who never earn anything.

Mr. GUNDERSON. I have one final question. There could be a potential here where you would not have enough people participating at the high income bracket, that are going to pay at the high interest rate to make the program solvent.

Mr. PETRI. Right.

Mr. GUNDERSON. That seems to be a real problem.

Mr. PETRI. That's been the problem with past proposals of this sort. We feel that this is where our program differs from those proposals. There is no way of being sure of that, however, until you gain some experience. That is why we are not suggesting eliminating anything that is on the books. We are suggesting authorizing something like this and trying it out.

The biggest demand actually is among graduate schools where students' potential for earning is highest. There are very few of these people who are studying medicine who will probably end up taking vows and earning nothing during the next 25 years. There is a high potential that they will be earning a lot of money, and we will end up running a profit on this program and then be able to broaden it and take in more people.

Mr. GAYDOS. Mr. Solarz?

Mr. SOLARZ. Thank you.

Do we have a vote on the floor?

Mr. GAYDOS. No, we are in recess.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Tom, this is a very interesting idea. I certainly want to compliment you for devoting so much effort to working out the details.

Mr. PETRI. I should say it was cosponsored last session by Senators Tsongas and Chafee.

Mr. SOLARZ. It is not clear to me what the Federal involvement in this proposal is. How do the Feds get into this act?

Mr. PETRI. Well, they guarantee the bonds, and they set up the collection mechanism.

Mr. SOLARZ. That is deemed necessary to get the program under way?

Mr. PETRI. Yes, it gives us a lower interest rate.

Mr. SOLARZ. Who would sell the bonds?

Mr. PETRI. State agencies.

Mr. SOLARZ. And your feeling is they wouldn't sell these bonds without a Federal guarantee?

Mr. PETRI. Well, they might be able to. They could be doing it now, then.

Mr. SOLARZ. In other words, with a Federal guarantee, they would, of course, do it because they would be guaranteed repayment. Would there be any limit on how much a State could sell in bonds? Is there any limit on the exposure of the Federal Government?

Mr. PETRI. There would be as much as they needed for loans, although we could impose a limit.

Mr. SOLARZ. Does this have any implications for the budget and for outlays?

Mr. PETRI. I don't think it would. It would depend on how the Treasury Department decides to structure it or how we decide to structure it. That is to say, as I said before, there would be an initial outlay cost if it were structured in the normal way. That is to say, if the States borrowed money, paid interest annually or semiannually, the students borrowed it and paid nothing until after they graduated, there clearly would be a cash-flow gap, even though they were accruing liabilities. If you financed it with zero coupon bonds, which is a fairly normal thing, then that gap would not exist, and there might be no up-front cost.

Mr. SOLARZ. What is the difference between the way in which this scheme would be financed and the way in which the Guaranteed Student Loan Program is financed now, from the Federal point of view?

Mr. PETRI. There would not be the subsidy to the banks, which is about a third of the cost of the Federal Student Loan Program, and there would not be the defaults, we don't feel, which is another 20 percent or so cost of the program. So, it would be structured in such a way as to eliminate two huge subsidies that do not go to students, that come from the Treasury but go to banks and go to default.

I mean, in GSL we are talking about a program in which half of the cost to the taxpayer doesn't go to students at all. That's our current program.

Mr. SOLARZ. What would the Federal Government be guaranteeing, the repayment of the loan with the interest——

Mr. PETRI. Yes.

Mr. SOLARZ [continuing]. Or just the principal?

Mr. PETRI. No, with the interest.

Mr. SOLARZ. The interest. Now——

Mr. PETRI. With the bond.

Mr. SOLARZ. In other words, somebody takes out a loan under this program, and they have to pay it back over, what, 25 years is it?

Mr. PETRI. Maximum. It would normally be 12 to 15.

Mr. SOLARZ. And their liability is the amount of the principal plus an interest rate calculated at the T-bill rate plus 2 percent?

Mr. PETRI. Right.

Mr. SOLARZ. That is a variable rate?

Mr. PETRI. Right.

Mr. SOLARZ. In other words, with each year?

Mr. PETRI. Right.

Mr. SOLARZ. Under your scheme, the upper-income people, the people who make more money when they get out of school, do they end up at the end of the day paying more back? Or do they simply pay more earlier but they don't end up paying more over the period——

Mr. PETRI. They end up paying more over the period. So, their effective interest rate would be higher over the period than that of the low-income borrower. So, it is a transfer. Right now, there is a huge transfer in our society from the taxpayer to the high-income student. The idea of it, in any event, is to have no transfer from the taxpayer but to have some transfers between the high-income and the low-income borrowers.

Mr. SOLARZ. Do you have any estimate at all about the costs involved?

Mr. PETRI. Just as we do in the Highway Trust Program, where we have transfers between truckers and motorists and stuff, but they are all using the roads. Our argument is they are all using education, so it's a better way——

Mr. SOLARZ. Do you have any estimate as to the amount of loans this program would result in?

Mr. PETRI. It would depend on how whole-hog we started out. But since we are not abolishing or eliminating any program that is already on the books, it could start out on a very modest level.

Mr. **Solarz**. The purpose presumably is to supplement the existing programs?

Mr. **Petri**. The HEAL Program is about $200 million, for health professions students. So, presumably, it would be on that order.

Mr. **Solarz**. The interest on this would be higher than the interest on the guaranteed student loan?

Mr. **Petri**. Right.

Mr. **Solarz**. And this would presumably supplement that?

Mr. **Petri**. Right.

Mr. **Solarz**. In other words, somebody would get the maximum guaranteed student loan, but they still don't have enough; so, they would need more?

Mr. **Petri**. Right.

Mr. **Solarz**. And they would then get this?

Mr. **Petri**. Right.

Mr. **Solarz**. And you are saying the maximum payment in any given year would be 15 percent of income?

Mr. **Petri**. Right, or someone might be from a higher-income family. You know, we do have a problem with all of these programs where the age of majority is 18 and yet we have a parents' liability test. We have parents who figure out and sign things and in fact genuinely refuse. It may be family disputes of some sort. They are not going to support their kids to go to school. What does the kid do? He maybe has trouble getting a student loan because of the family means test. That is not a problem with this. So, there might be some people in that situation who would take advantage of this.

Mr. **Solarz**. If in fact the Federal guarantee made it induce the States to participate and the default rate was such that we never had to make good on the guarantees, you would have a perfect plan.

Mr. **Petri**. Right.

Mr. **Solarz**. I gather you seem confident that the Federal guarantee would not be called upon. What gives you that confidence?

Mr. **Petri**. The history of earnings of people who have received education. Since this is income contingent, if there is a flow of earnings there, you can expect a certain average repayment. In effect, it is the same as buying stock in a company, except we are buying a share of the earnings of the graduates who have taken advantage of this program. It is like a revenue bond. I am confident that Americans will continue to earn in the future roughly as they have in the past. Therefore, these bonds will not default.

Mr. **Solarz**. And the interest rate here would be less than the interest rate that somebody would have to pay if they went to a bank on their own and said, I need another couple of thousand bucks to go to college?

Mr. **Petri**. On average it would. I mean, you could see blue ribbon borrowers who might be able to get a little less, but on average it would be.

Mr. **Solarz**. Well, if it would be less, given the fact that there are limits on what the banks can loan, even with a guarantee, why would a bank want to make a loan at a lower rate of interest than they could obtain if they loaned it out for some other purpose and get a higher rate of interest?

Mr. PETRI. They wouldn't, and we're not using the banks. This is going through the student loan office and the guarantee agencies. The banks are cut out of this program. That is where we make most of our savings. That is why it is a viable program. They don't get the third that they get from guaranteed student loans.

Mr. SOLARZ. Has the administration commented?

Mr. PETRI. Yes. They have made friendly sounds. Let's put it that way. They feel, I think, that there should be some way of guaranteeing access to all Americans to higher education. I hope so anyway.

Mr. SOLARZ. Has your plan been submitted for the commentary of people in the higher education community and the banking community?

Mr. PETRI. Yes.

Mr. SOLARZ. What kind of response have you gotten?

Mr. PETRI. I can't say the banking community has jumped up and down with joy, and I can't really speak for them.

Mr. SOLARZ. Do you have any independent assessment of the fiscal viability of this from the point of view of the Federal Government other than the work your own staff has done on it? It seems to me that is a key question.

Mr. PETRI. We are asking for it and would naturally welcome it.

Mr. SOLARZ. Who have you asked to do it?

Mr. PETRI. CBO and the administration both.

Mr. SOLARZ. It strikes me that is one of the keys to moving forward on this, is some viable and reliable independent assessment——

Mr. PETRI. I agree.

Mr. SOLARZ [continuing]. That this makes sense. I am not suggesting that it doesn't.

Mr. PETRI. I fully agree.

Mr. SOLARZ. One doesn't often ask witnesses to testify against their own proposals, but since you have put so much time in this, obviously you have considered all the permutations and combinations and ferreted out criticisms and the like. If you can share confidences with us, what have you found to be the major criticisms of your proposal, the major objections that have been raised?

Mr. PETRI. I think the largest worry in the education community is that, if this were to succeed and flourish, while it would start very small, it would end up over time supplanting the Guaranteed Student Loan Program and therefore reducing or eliminating a subsidy from the general community and people who don't take advantage of education to the wealthier and more educated Americans.

Mr. SOLARZ. How would that happen?

Mr. PETRI. Well, right now we have a large, billion dollar subsidy to education. If this program went along and worked well and did not involve a subsidy, and future Congresses said, hey, everyone has access to education who needs it, the money is there, and they would then pay for the whole cost, why tax workers who don't go to college for the cost of a program? They would cut back and eliminate the transfer program. That is, I think, the underlying concern.

Mr. SOLARZ. I have one final question, Mr. Chairman, if I might.

The guaranteed student loan is at a lower rate of interest than your program.

Mr. PETRI. Right.

Mr. SOLARZ. So, what would be your answer to the objection you just articulated, that if this does succeed, over time the Congress might say there is no longer a need for the Guaranteed Student Loan Program. And that would have the effect of raising the cost of going to college for a lot of people.

Mr. PETRI. I would say that, if people are able to pay for their education and if they are truly benefiting from it, we are sending a better social signal through a program like this than we are through a Government subsidy. Therefore, it is not that bad, but I would still like to see money go into education to help very poor people through grants rather than saddling them with debt that they might not be able to repay. And I would rather have a fair, unsubsidized student loan program like this, if it works, and a good grant program, than subsidies going to high-income people who don't need them.

Mr. SOLARZ. For the low-income student, the student who, when he graduates, doesn't make much money——

Mr. GAYDOS. We have three other witnesses, and we have a special session today, Mr. Solarz. Make it the last question, please.

Mr. SOLARZ. Thank you, Mr. Chairman.

Will the low-income student end up paying more or less under your plan, than under the guaranteed student loan?

Mr. PETRI. Less.

Mr. GAYDOS. Mr. McKernan?

Mr. MCKERNAN. Thank you, Mr. Chairman. Hopefully, these questions won't be too complicated so we can get moving.

First, what is your definition of income?

Mr. PETRI. There is no means test. Income is defined by your tax return after you go out and graduate.

Mr. MCKERNAN. Would last year's tax return determine what you pay in the next year?

Mr. PETRI. You would be on a withholding basis, so that it would be concurrent.

Mr. MCKERNAN. You are assuming withholding?

Mr. PETRI. Yes.

Mr. MCKERNAN. Is that an essential part of this plan?

Mr. PETRI. No.

Mr. MCKERNAN. When would payments begin, immediately or after you get out of school?

Mr. PETRI. There would be no payments unless you were earning money, as soon as you earn money. If you happened to be in school, if you borrowed and you happened to be in school and you wrote a wonderful novel and started earning $50,000 a year, you would have to pay even though you were still in school.

Mr. MCKERNAN. What if you did what most students do and work either on the side and/or during the summer?

Mr. PETRI. Right.

Mr. MCKERNAN. It would be 15 percent of whatever you earned?

Mr. PETRI. No, unlikely, because your income would be quite low. I am sorry. I am told you don't actually start until after school.

Mr. MCKERNAN. Even if you did earn income?

Mr. **Petri**. Yes.

Mr. **McKernan**. OK.

Let's come back to Steve's question. I commend you on your creativity, but I think we are all groping in the dark on exactly what this is all about. The 13.75 percent that Steve talked about would be paid only by an unmarried taxpayer, earning $25,000 who took 25 years to pay it off?

Mr. **Petri**. Right.

Mr. **McKernan**. Then, that person would have an incentive to be in the program because he or she would really only be paying somewhere around 12 percent, or even less.

Mr. **Petri**. Yes. Right now I think it would be less.

Mr. **Flader**. It depends on what T-bill plus 2 is.

Mr. **McKernan**. What I am saying is that that person ought to also have the incentive to be in this program.

Mr. **Petri**. They do.

Mr. **McKernan**. It would probably be less than 13.75 percent.

Mr. **Petri**. That's the maximum. And right now T-bill plus 2 is probably around 9 percent. So, it would be between 11 and 12 percent currently that they would be paying as a maximum.

Mr. **McKernan**. My point is that I wouldn't think there would be too many people earning $25,000 per year for a fairly long period of time who would take 25 years to pay off the loan.

Mr. **Petri**. That's right. No, the average repayment in full would probably be, we figure, around 12 to 15 years. But if someone is not earning and therefore not paying, there is an automatic rescheduling, in effect. So, their obligation remains. If you don't pay this year, then you accrue interest. Rather than being through with all payments after 12 years, you are not through until after 13 years.

Mr. **McKernan**. The idea that the higher-income people are subsidizing the lower-income people, is that why you have the 2 percent spread? Is that what makes up the difference? I am not really sure how that works.

Mr. **Petri**. Joe?

Mr. **Flader**. T-bill plus 4.5 is the maximum faced by the highest-income borrowers. It's that extra 2.5 points that makes up the difference, but it applies only to people who finish repayment within 12 years. You would only pay 13.75 over 25 years if T-bills were 11.75 over 25 years. If T-bills were 11.75 over 25 years, that implies a substantial amount of inflation, so that the income of someone would probably be much higher than $25,000 by the end of that 25 years.

It is unlikely T-bills are going to average 11.75 over a 25-year period without that.

Mr. **McKernan**. So, the extra 2.5 makes up the difference for the low-income and the defaulting.

I have a final question. Since banks are not going to be included, who is going to collect these loans? Who would be administering that?

Mr. **Petri**. We have in our proposal the IRS. So, you would pay along with your tax return. You would figure out your income and your taxes. Then you would add a percentage to that as a payment to repay your loan. However, if the IRS route does not seem desirable, then it could be done through another office with your tax return and a cover sheet.

Mr. PETRI. The way States do now to collect State income taxes in many cases, you use your Federal return and attach it to your State.

Mr. MCKERNAN. Could it be done by a State agency or a nonprofit agency, secondary market agency, something like that, other than by a governmental entity?

Mr. PETRI. Yes. They could do it that way.

Mr. MCKERNAN. Thank you.

Mr. GAYDOS. Thank you very much.

I want to thank our colleague.

I wonder if I could presumptively change the next two individuals and hear them as a panel. It may save time, and maybe the committee could question them together. Let me call at this time then Mr. Doug Seipelt, executive vice president of Tri S Inc. If you wouldn't mind, Mr. Seipelt, I would like to call also to sit with you Mr. Terry Hartle of the American Enterprise Institute, who will be presenting testimony instead of Mr. Doyle. Dennis Doyle is unable to be here.

Thank you very much for accommodating the committee. Proceed in a manner that will suit your purposes. I don't know who wants to start.

STATEMENTS OF DOUGLAS R. SEIPELT, THE COLORADO STUDENT LOAN PROGRAM; AND TERRY W. HARTLE, AMERICAN ENTERPRISE INSTITUTE

Mr. SEIPELT. Thank you, Mr. Chairman and members of the subcommittee.

It is a pleasure and an honor to be asked to discuss with you today alternatives concerning the Federal participation in the area of student credit, specifically the Guaranteed Student Loan Program.

The two largest federally supported credit mechanisms, the Guaranteed Student Loan Program and the National Direct Student Loan Program, have provided millions of students access to higher education.

This committee has always supported the concept of student credit as a partnership in the student aid process and we in the administration of these programs have always appreciated it.

We are, though, in the midst of some very difficult times in determining just how much support the Federal Government can offer these highly subsidized credit programs.

Due to constraints applied to the Guaranteed Student Loan Program since the Budget Reconciliation Act of 1981, the number of students participating in the GSLP has diminished, especially the most substantial reduction in the number of students from families earning above $30,000 annually.

Since the original purpose of the Guaranteed Student Loan Program as established in the Higher Education Act of 1965 was to assist middle-income parents with cash flow problems, this change of focus over the last few years has been both dramatic and potentially devastating to the middle-income student.

In consideration of the current administration's position on the GSL Program and the dilemma of potential budgetary impacts on the future eligibility of students to borrow under the GSL, it is quite appropriate and essential that we relook at the structure of the GSL and its support of middle-income students.

Over the last 5 years, the Federal cost in the GSL Program has escalated appreciably and has been viewed in some circles as draining other Federal support for low-income students. This Federal cost is mainly in the form of in-school interest benefits and special allowance payments to lenders in order that the interest charged to students can remain significantly below normal rates for consumer debt.

The in-school interest provision and the subsequent subsidization of interest during loan repayments causes not only current year budget considerations but sets up long-term liabilities that do not disappear until each individual loan has been repaid in full.

The costs for current and out-year expenditures caused a dilemma in the Budget Reconciliation Act of 1981. In my opinion, the solution created not only poor public policy but it also did not solve the problem. As everyone knows, to create current and long-term savings in that year, we instituted a needs analysis for families above $30,000, which shut the door on many students because we now equate their eligibility for credit on the same basis as their eligibility for grants and jobs. In addition, a loan origination fee or discount was used to credit the Federal budget to produce enough savings to allow the program to continue.

This was and is poor public policy for two reasons. First, I do not believe that most people are not in favor of a strong credit program to help pay the massive and increasing costs of higher education. Thus the decision to equate eligibility to borrow with eligibility of subsidization is at cross purposes. Just because a family does not qualify for free or reduced rates of interest does not mean that they do not need to borrow at all. This does not make sense in any consumer credit system for goods and services. We must reexamine allowing students and families access to the loan principal even though the Government is unwilling to subsidize the loan.

Second, the loan origination fee is discriminatory in that today's students are paying for previous students' benefits in a period when each student needs all the funds they can secure to pay their current educational costs. We cannot continue to discount current credit to pay for past costs and at the same time offer out-year benefits in the form of subsidization. How much longer will it be before we have to discontinue all new borrowing to bring expenditures in line with any one year's Federal outlay?

It is with this in mind that I strongly urge you to consider a two-tiered Guaranteed Student Loan Program: One where the credit is subsidized during the in-school period and the other a program of nonsubsidized credit with the family and student paying the cost of that credit.

My specific recommendations are as follows:

The Subsidized Student Loan Program should be moved to a full need concept, that is, any student wishing to borrow a guaranteed student loan with no in-school interest must qualify for this loan on the basis as other student aid. These loans should not continue to be subsidized during the repayment period but, rather, convert to a more realistic interest rate. I might suggest that rate to be the same as the second tier program, which would be the rate of the 91-day T-bill plus 3.5 percent with a cap of 12 percent at which time Federal special allowances would still be paid to the lenders. It is difficult to justify the continued Federal subsidization of adults who have jobs and incomes just because they were needy as freshmen in college.

The second tier of the Guaranteed Student Loan Program would be a program of nonsubsidized credit. Students would enjoy the same benefits of the existing GSL Program but would be charged the cost of borrowing. The terms would be no payment of principal until withdrawal or graduation, with the interest rate the same rate of the 91-day T-bill plus 3.5 percent and again with a maximum cap of 12 percent at which point the Federal Government would still be willing to pay Federal special allowance payments. The interest rates should be adjusted quarterly, and the interest cost billed or capitalized by the lender. Loan limits under this new program would be $4,000 per year and $20,000 maximum.

I believe the benefits of this two-tiered proposal would include eliminating the need for the Alas Loan Program, would reduce Federal cost to promote credit availability, would allow students and families credit alternatives for choice and access at their own cost, would stop the proliferation of new alternative loan programs, and would allow for reasonable loan consolidation with notes at the same rates and with the same benefits.

The two-tiered approach would thus embody the true intent of the original Federal GSL legislation. It would allow the Federal Government to make political and monetary decisions about how much to spend on a subsidized student loan and for who but would also support a system of credit for middle-income-class families.

The success of the Guaranteed Student Loan Program for millions of students and families has been the ability to borrow cash in place of discretionary income and pay the funds back with future earnings as a result of the educational experience. No other credit program, not PLUS, Alas, or regular consumer credit can accomplish what GSL has. We must preserve this ability for both needy and middle-income students with cash flow problems.

In summary, I believe the following can be accomplished with this approach:

We can have reduction in Federal costs for both current years and out-years.

We would leverage billions of private dollars through minimum Federal expenditures.

We would shift the subsidy cost to the recipient of the benefit for nonneedy students.

We would allow parents and students access to credit rather than through rationing formulas.

We would allow Congress to target grants and interest subsidies on low-income families through rational delivery mechanisms.

It would provide for reasonable repayment conditions for the student.

It would allow Congress to make single-year budget allocations on eligibility decisions.

Lastly, we would prevent loan subsidies from escalating and pyramiding such that current services have to be cut to catch up with previous guarantees.

With that, I would respectfully submit this idea to the committee. I thank you for your time.

[Prepared statement of Douglas Seipelt follows:]

PREPARED STATEMENT OF DOUGLAS R. SEIPELT ON BEHALF OF THE COLORADO STUDENT LOAN PROGRAM

Mr. Chairman and members of the subcommittee, I am Douglas Seipelt representing the Colorado Student Loan Program.

It is a pleasure and an honor to be asked to discuss with you alternatives for Federal participation in the area of student credit and the Guaranteed Student Loan Program.

The two largest Federally supported credit mechanisms, the Guaranteed Student Loan Program and the National Direct Student Loan Program, have provided millions of students access to higher education.

This Committee has always supported the concept of student credit as a partnership in the student aid process and we appreciate it greatly.

We are, though, in the midst of very difficult times in determining just how much support the Federal government can offer these highly subsidized credit programs.

Due to constraints applied to the Guaranteed Student Loan Program since the Budget Reconciliation Act of 1981, the numbers of students participating in the GSLP has diminished. The most substantial reduction is in the numbers of students from families earning above $30,000 annually.

Since the purpose of the Guaranteed Student Loan Program as established in the Higher Education Act of 1965 was to assist middle income parents with cash flow problems, this change of focus over the last few years has been dramatic and potentially devastating to the middle income student.

In consideration of the current Administration's position on the GSL program and the dilemma of potential budgetary impacts on the future eligibility of students to borrow under the GSL it is quite appropriate and essential that we relook at the structure of the GSL and its support of middle income students.

Over the last 5 years, the Federal cost in the GSL program has escalated appreciably and has been viewed in some circles as draining other Federal support for low income students.

This Federal cost is mainly in the form of in school interest benefits and special allowance payments to lenders in order that the interest charged to students can remain significantly below normal interest rates for consumer debt.

The in-school interest provision and the subsequent subsidization of interest during loan repayments causes not only current year budget considerations but sets up long term Federal liabilities that do not disappear until each individual loan has been repaid in full.

The costs for current and out-year expenditures caused a dilemma in the Budget Reconciliation Act of 1981. The solution created poor public policy which did not solve the problem. As everyone knows, to create current and long term savings in that year, 1981, we instituted a needs analysis for all families above $30,000. This shut the door on many students because we now equate their eligibility for credit on the same basis as their eligibility for grants and jobs. In addition, a loan origination fee or discount was used to credit the Federal budget to produce enough savings to allow the program to continue.

This was and is poor public policy for two reasons:

First, I do not believe that most people are not in favor of a strong credit program to help pay the massive and increasing costs of higher education. Thus the decision to equate eligibility to borrow with eligibility of subsidization is at cross purposes. Just because a family does not qualify for free or reduced rates of interest does not mean they do not need to borrow at all. This does not make sense in the consumer credit system for goods and services. We must reexamine allowing students and families access to the loan principal even though the government is unwilling to subsidize the loan.

Second, the loan origination fee is discriminatory in that today's students are paying for previous student's benefits in a period when each student needs all the funds they can secure to pay their current educational costs. We cannot continue to discount current credit to pay for past costs and at the same time offer out-year benefits in the form of subsidization. How much longer will it be before we have to discontinue all new borrowing to bring expenditures in line with any one Federal year's outlays?

It is with all this in mind that I strongly urge you to consider a two tiered Guaranteed Student Loan Program. One where the credit is subsidized during the in-school period and the other a program of non-subsidized credit with the family and student paying the cost of the credit.

My specific recommendations are:

The subsidized student loan program should be moved to a full need concept, i.e. any student wishing to borrow a GSL with with no in school interest cost must qualify for this loan on the same basis as other student aid. These loans should not continue to be subsidized during the repayment period but rather convert to a more realistic interest rate. The rate should be the same as the second tiered program—the rate of the 91 day T-Bill + 3.5% with a cap of 12% at which time Federal special allowances would still be paid. It is difficult to justify the continued Federal subsidization of adults who have jobs and incomes just because they were "needy" as freshman in college.

The second tier of the Guaranteed Student Loan would be a program of nonsubsidized credit. Students would enjoy the same benefits of the existing GSL program but would be charged the cost of borrowing. The terms would be no payment of principal until withdrawal or graduation with the interest rate set at the rate of the 91 day T-bill + 3.5% with a maximum cap of 12% at which point the federal government would provide special allowance payments to the lender. The interest rates should be adjusted quarterly and the interest cost billed or capitalized by the lender. Loan limits would be $4,000 per year, with a maximum of $20,000.

The benefits of this two tiered proposal include eliminating the need for the Alas Loan program, reducing Federal cost to promote credit availability, allowing students and families credit alternatives for choice and access at their own cost, stopping the proliferation of new alternative loan programs, and allowing for loan consolidation with notes at the same rates and the same benefits.

The two tiered approach would thus embody the true intent of the original Federal GSL legislation. It would allow the Federal government to make political and monetary decisions about how much to spend on a subsidized student loan and for who, but would also support a system of credit for middle class families.

The success of the Guaranteed Student Loan program for millions of students and families has been the ability to borrow cash in place of discretionary income and pay the funds back with future earnings as a result of the educational experience. No other credit program, not Plus/Alas or regular consumer credit can accomplish what GSL has. We must preserve this ability for both needy and middle income students with cash flow problems.

In summary, I believe the following can be accomplished with my recommendations for a two tiered Guaranteed Loan Program:

Reduction in Federal costs for both current and out years.

Leverage billions of private dollars through minimum Federal expenditures.

Shift the subsidy cost to the recipient of the benefit for non needy students.

Allow parents and students access to credit rather than rationing through formulas.

Allow Congress to target grants and interest subsidies on low income families through rational delivery mechanisms.

Provide for reasonable repayment conditions for the student.

Allow Congress to make single year budget allocations on eligibility decisions.

Prevent loan subsidies from escalating and pyramiding such that current services have to be cut to catch up with previus guarantees.

Thank you for your time and for asking me to be here today.

Mr. GAYDOS. Without objection from the committee, Mr. Hartle.

Mr. HARTLE. Thank you, Mr. Chairman.

I am Terry Hartle, a resident fellow in education at the American Enterprise Institute. I am testifying on behalf of myself and Dennis Doyle, the director of education policy studies at AEI.

I would note for the record that AEI is a private, nonprofit, nonpartisan research organization that doesn't take stands on public policy issues. The views that we express today are simply our own.

We are pleased to be with you to have the opportunity to talk about the Guaranteed Student Loan Program and the Higher Education Act's reauthorization. By now the successes of these programs are widely recognized. Millions of students have benefited and continue to do so. It is an investment that will pay handsome dividends in terms of economic growth and social progress. The programs serve an essential public purpose.

There are, however, a number of problems with these programs, many of which the members of this committee are well aware of. Part of the problem is simply complexity. Few policymakers outside of this committee and the companion subcommittee in the Senate understand the programs, and who can blame them? The Guaranteed Student Loan Program alone involves some 12,000 banks and other lenders, 8,600 institutions, 58 State and private guarantee agencies, 30 State secondary markets, 22 loan servicers, nine collection agencies, thousands of lobbyists, and the ubiquitous Sallie Mae.

The situation is even worse for students and their parents. Theoretically, they should know how much financial aid they will receive far enough in advance to have the opportunity to do some careful planning about the type of education that they will pursue, but it rarely works that way. The complexities of the process and the delays that often occur make it difficult for students to make college plans. The National Commission on Student Financial Assistance was very critical of these particular aspects in the student aid delivery system.

A bigger problem than complexity is the cost. Student aid, as the members of the committee are well aware, is an increasingly big ticket in the Federal budget. Costs go up for many reasons, including increased utilization, waste and abuse, such as loan defaults and generous eligibility criteria. Many of the public discussions about student financial aid are concentrated on these latter problems, sometimes at the expense of recognizing the very real accomplishments of the programs. It is an unfortunate focus, perhaps, but nevertheless one that reflects a level of discontent and concern.

Under the current environment the natural tendency would be to make only modest changes in the student aid programs. Many groups are involved. The issues are complex. Student aid is increasingly likely to be a zero-sum game, where tradeoffs are very much involved. It will be hard enough to find agreement on technical matters and details without raising fundamental issues. Indeed, much of the discussion before this subcommittee so far has focused on important but narrow and technical issues such as multiple disbursements to special allowance and consolidation.

We would urge the Congress to avoid taking such an approach. Preserving the status quo, given the projections we can easily make for postsecondary education, is unlikely to meet the needs of either students or institutions. We know, for example, the demographic changes will radically change the face of higher education over the next decade. Enrollment is expected to drop some 17 percent among full-time students. Some institutions are likely to close, and educational quality is likely to erode at others as they seek to stay afloat. Students who do enroll will increasingly come from disadvantaged and minority backgrounds. Already the City University of New York is an institutional predominantly composed of such students. The University of California at Berkeley and UCLA will soon be in the same position.

The Nation's faculty will continue to age, and there will be few vacancies for new instructors. Tuition costs will continue to increase. A college that costs $10,000 today will cost over $13,000 in 1991 and more than $17,000 in 1996 if we assume a modest tuition increase of 5 percent. Slightly higher rates, of course, would result in even larger tuitions.

At high-priced schools the increases will be even more pronounced. I call to your attention the example that was in the Wall Street Journal a couple of days ago, of a distinctive crimson T-shirt that was seen in downtown Boston bearing the message: "This shirt cost my family $50,700, Harvard 1985." If we assume a 7-percent increase in tuition at Harvard over the next decade, it will say $99,700 for the class of 1995.

Given these pressures, the changes that this subcommittee makes in reauthorizing the Higher Education Act will have a profound impact on the shape of higher education and who attends it for many years. We would encourage you to think broadly about some of these changes as you look at the menu of programs that are before you.

We recognize political reality. The members of this committee will not preside over the elimination of major student aid programs, and the higher education community is unlikely to accept it. But the difficulties we have outlined are serious and issues will not go away.

We would urge the subcommittee to give careful consideration to changes that would enhance student access, preserve some choice among institutions, hold Federal outlays at acceptable levels, and minimize waste and abuse. If appropriate, such changes could be phased in over several years.

There are no easy answers or simply approaches. Congressman Petri has laid out one this morning, a national student loan bank with an income-contingent repayment feature that has much merit. Similar proposals have been introduced in the past, but this one is clearly the most thorough and comprehensive that has come along.

For the most part, such ideas are too easily dismissed by those with a stake in the current structure. We would urge the subcommittee to conduct thorough analyses of plans such as Congressman Petri's to assess their likely impact on students, institutions, and Federal policy goals. I think Congressman Solarz' suggestion earlier that the bill that Congressman Petri has put forward should be carefully reviewed by independent analysts is a good one. We would call for such studies ourself. Such efforts may point in the direction of major changes that would serve Federal policy goals more efficiently and effectively.

We would emphasize two points with respect to the creation of a loan bank or any other changes you would make in the Guaranteed Student Loan Program. First, the centerpiece of Federal aid to students was intended to be Pell grants for the neediest students. In recent years the Guaranteed Student Loan Program has increasingly come to dominate policy and budgetary deliberations. There are many reasons for this, but we believe it is not entirely healthy. We would encourage this subcommittee to reaffirm Pell grants, carefully targeted at the neediest students, as the centerpiece of Federal aid.

Second, any expansion of a loan program runs the risk of encouraging students to take on large debts. This subcommittee has already heard several horror stories from students who owe large sums of money and students whose postcollege plans have been changed simply because of the amounts that they have borrowed. The fact is that many college students who borrow money don't realize how much they owe until repayment begins. We think that this is a problem that is going to require attention. We know that there is a lot of pressure to raise loan levels under the Guaranteed Student Loan Program. We recognize that Congressman Petri's bill would also allow students to borrow more money.

If you let them borrow more money, they will borrow more money. If you think the stories about indebtedness that you have been hearing at these reauthorization hearings bother you, wait until you hear the stories in 1990 or 1991, should those loan limits go up. This is an especially acute problem for graduate and professional students. Some institutions require these students to take the maximum Guaranteed Student Loan before they can get any institutional support. As a result, these students can end up in debt with a large amount of debt very quickly.

Indebtedness is a serious problem for some students, obviously, as you have heard. But the fact is that we don't know how serious it is for all students. We are reduced to anecdotes because comprehensive information is not available. It should be. There is one Federal survey that sheds a little light on these questions. It is the Survey of Recent College Graduates, done every 2 years by the National Center for Education Statistics.

In preparation for this hearing, we asked NCES about the most recent debt levels that were available. The most recent figures are 1980 figures. The survey should have been done last year to provide more recent information but it was not. NCES simply lacked the resources to go out and do the survey.

If you want to know about the indebtedness of 1980 graduates, we can give it to you. More recent information just isn't around.

This illustrates to us what is a serious flaw in the Federal student aid efforts: the Department of Education knows very little about what student aid purchases. Through appropriations and Guaranteed Student Loans, the Federal Government pumps out about $15 billion a year. We know almost nothing about the students that get it, how it influences their college experience or their postcollege plans.

We strongly urge the subcommittee to require the Department of Education to upgrade their data collection efforts in this area immediately.

The need for such reliable information is widely recognized and will become more important in the future as Federal budgets remain limited and spending demands continue to increase. The information won't be available for your work, but if the department moves promptly, the information will be available for the next reauthorization of the Higher Education Act. Needless to add, in designing such an information system, the department should work closely with the Congress and the higher education groups.

Finally, we would encourage the subcommittee to address the disincentives that discourage parents from saving for their children's education. Under need analysis procedures, families who have saved carefully for college and have resources set aside are less likely to be eligible for subsidized aid than an otherwise identical family who spends rather than saves their discretionary income. Savings are assets that limit a family's financial need. Moreover, because the savings are taxed, there is a double disincentive involved. The parents can get around that, but that is unfortunate. Those who save money for college and thereby limit the need for public resources shouldn't have to resort to sophisticated strategies to shelter the resources.

We would propose that the subcommittee seriously consider a program of educational savings accounts similar in design to the Individual Retirement Accounts. The Reagan administration has advanced such a proposal, as has Senator Dole. These plans, which differ considerably in design and generosity, may provide appropriate models for crafting a House version of such a plan.

We are aware that the Ways and Means Committee has at least some jurisdiction over this, if not exclusive jurisdiction. We also are aware that they are likely to be preoccupied in the next few months with the President's tax proposal. But we would encourage this subcommittee to work with them to see if such a plan couldn't be put in place so that the class of 1995 at Harvard might have some opportunity to benefit from it.

In summary, we urge the subcommittee to think broadly about the future of higher education and the position that student aid occupies in it. It is clearly a vital position. The president of the American Council on Education calls student aid the very lifeblood of most institutions.

The suggestions we have made to reassert the primacy of Pell grants, to thoroughly consider major changes in the structure of student aid programs such as Congressman Petri's proposal, to improve data collection on the distribution and utilization of student aid, and establish a program of education savings accounts, are all valuable steps for this committee to take as it establishes the framework for student aid policy in the 1990s.

Thank you.

[Prepared statement of Terry Hartle follows:]

PREPARED STATEMENT OF TERRY W. HARTLE, AMERICAN ENTERPRISE INSTITUTE

Good morning, Mr. Chairman and members of the committee, I am Terry W. Hartle, Resident Fellow in Education at the American Enterprise Institute. Testifying with me is Denis P. Doyle, Director of Education Policy Studies at the American Enterprise Institute. We should note for the record that the American Enterprise Institute is a private, nonpartisan, nonprofit research organization that does not take positions on public policy issues. Individual scholars and fellows at AEI do take positions on issues and it is in that capacity that we appear here today.

We are pleased to be with you to discuss the federal government's student aid programs and the reauthorization of the Higher Education Act. The successes of these programs are, by now, widely recognized. Millions of students have participated in postsecondary education because of these programs, an investment that will pay handsome dividends in terms of economic growth and social progress. The programs serve an essential public purpose.

But there are a number of major problems with the student aid programs that demand attention. Part of the problem is simply complexity. Few policy makers understand student aid in its entirety. Who can blame them? The guaranteed loan program alone involves some 12,000 banks and other lenders, 8,650 institutions, 58 state and private guarantee agencies, 30 state secondary markets, 22 loan servicers, thousands of lobbyists, nine collection agencies and the ubiquitous Sallie Mae.

The situation is even worse for students and their parents. Theoretically students should know how much financial aid they will receive far enough in advance to permit thoughtful planning about the type of education to pursue. It doesn't work that way. The complexity of the programs and the delays that often plague the aid process make it difficult for students to make college plans.

A bigger problem than complexity is cost. Student aid is an increasingly big ticket in the federal budget. In 1984, Congress appropriated about $6.5 billion. In 1985, it set aside almost $8 billion. It wasn't enough. A supplemental appropriation of about $900 million will be required.

Costs are driven up by many factors, including increased utilization, waste and abuse (such as loan defaults) and generous eligibility criteria. Much of the public discussion about student aid has concentrated on these latter problems, sometimes at the expense of recognition of the many accomplishments of student aid. An unfortunate focus perhaps, but nonetheless one that reflects a level of discontent and concern.

Under the current environment the natural tendency would be to make only modest changes in the student aid programs. Many groups are involved. The issues are complex. Student aid is, like many social programs, increasingly a zero sum game. Trade-offs that benefit one group may well come at the expense of others. It will be hard enough to find agreement on technical matters and details without raising fundamental issues.

We urge the Congress to avoid such an approach. Preserving the status quo, given the short-run projections for higher education, is unlikely to meet the changing needs of either students or institutions. We know, for example, that demographic changes will help reshape the face of higher education. Enrollment will decline in the next decade, a drop of 17 percent is expected among full-time students. As a result, some institutions will close and educational quality will erode at others as they seek to stay afloat. The students who do enroll will increasingly come from disadvantaged and minority backgrounds. The nation's faculty will continue to age and there will be few vacancies for new instructors. And tuition costs will continue their inexorable rise: colleges that cost $10,000 today will cost over $13,000 in 1991 and more than $17,000 in 1996, assuming a modest rate of tuition increases (5%). If we assume a slightly higher level of 7% (which is not unrealistic given recent increases), the bill in 1996 will be almost $20,000.

At high priced schools the increases will be even more dramatic. Consider an example. A *Wall Street Journal* reporter recently noted that a distinctive crimson T-shirt was seen in Boston. It's message, "This shirt cost my family $50,700 ... Harvard 1985." In 1995, (assuming an annual 7% rise), it will say $99,734.

Given these changes, the decisions this subcommittee makes in reauthorizing the Higher Education Act will have a profound impact on the shape of higher education, and who attends it, for many years. We would encourage the subcommittee to consider a wide range of alternatives that would result in a broader restructuring of student aid.

We recognize political realities. The members of this committee are not likely to preside over the elimination of major student aid programs. And, despite the problems of the present system, the higher education community is not likely to trade proven programs for untried replacements. But the difficulties we have outlined are serious. The issues will not go away. Consequently, we urge the subcommittee to give careful consideration to major changes in student aid that would enhance student access, preserve some choice among institutions, hold federal outlays at an acceptable level, and minimize waste and abuse. If appropriate, such changes could be phased in over several years.

There are no easy answers or simple approaches to this, but neither is there a shortage of ideas. We have previously suggested the creation of a national student loan bank. Senators Kennedy and Bellmon introduced such a bill several years ago. Congressman Petri has a thorough proposal already developed. We understand that Congressman Obey is also developing such a plan.

In this system, loans would be made directly from the federal government or another central lender to the students. Such an approach would allow the reduction or elimination of the subsidy paid to the banks. Some loan bank proposals call for repayment of loans through the Internal Revenue Service, an approach that would help keep defaults at a low level.

Some variations of a loan bank would involve an income contingent repayment feature in which graduates with high incomes pay back more money than they borrowed. Intellectually this is an appealing feature as it would treat the loan as an investment in human capital that is repaid according to the size of its economic return. Such a feature is, of course, administratively complex, but it deserves careful consideration.

For the most part, such ideas are too easily dismissed by those with a vested stake in the current structure. We urge the subcommittee to conduct thorough analyses of such plans to assess their likely impact on students, institutions, and federal policy goals. Congressman Petri's bill is a step in this direction. What is called for now is a detailed study of his proposal by distinguished analysts. Such an effort may well point in the direction of major changes that would serve federal policy goals more efficiently and effectively.

We emphasize two points with respect to the creation of a loan bank or changes in the GSL program. The centerpiece of federal student aid was intended to be the Pell grants, but in recent years the GSL program has increasingly come to dominate student aid policy and budgetary deliberations. There are many reasons for this, including the quasi-entitlement status of GSL. But we believe this is not an entirely healthy development. We urge this subcommittee to reaffirm Pell grants—carefully targeted on the neediest students—as the centerpiece of student aid.

Second, any expansion of a loan program runs the risk of encouraging students to take on large debts. This subcommittee has already heard several horror stories from students who owe large sums. The fact is, many college students who borrow don't realize how much money they owe until repayment begins. Increasing loan limits will increase student borrowing and debt burden. Under Congressman Petri's bill, for example, a student who borrows the maximum for 4 years of undergraduate education and three years of law school will end up owing $40,000. Raising loan limits under GSL will have the same result: students will borrow more money, especially those in graduate and professional school. If loan limits are raised, more carefully crafted repayment provisions will have to be designed or we will recreate indentured servitude in the name of higher education.

This raises hard policy choices. Many students need more loans to afford their education, especially since grant funds have been scarce. This problem is especially acute for graduate and professional students. But let there be no doubt about what will happen: students will borrow more money. If the stories about indebtedness from these reauthorization hearings shock you, wait until 1990 or 1991.

Indebtedness is a serious problem for some students. The truth is that we don't know how widespread the problem is. We are reduced to anecdotes because comprehensive information for making informed judgments is not available. It should be.

There is one data base that sheds a little light on these subjects. The Survey of Recent College Graduates collects some information on student borrowing. This survey, done every two years by the National Center for Education Statistics, asks respondents how much money they borrowed for their education.

In preparation for this hearing we contacted NCES to get the education debt figures for the 1984 survey: they are not available. NCES did not do the survey because they lacked the resources. They will do the survey this year. the indebtedness of 1980 graduates is available, but if you would like to know about 1984 graduates, you'll have to wait at least one year. There is nothing in between.

This illustrates what is to us a serious flaw in federal student aid efforts: the Department of Education knows very little about what federal student aid purchases. Through appropriations and GSL lending by banks, the federal government pumps some $15 billion into postsecondary education. We know almost nothing about the students that get it, how it influences their college experience or their post-college plans.

We strongly urge the subcommittee to require the Department of Education to upgrade their data collection efforts in this area immediately. A good model would be the on-going survey of Doctoral Recipients conducted by the National Research Council. This survey gathers information on students' degrees, job plans, and finances that is of enormous value to educators and policy makers alike.

The need for such reliable information is widely recognized and will become more important in the future as federal budgets remain limited and spending demands increase. Such information will not, sadly, be available for your work. But if the Department moves quickly this information will be available for the next reauthorization of the Higher Education Act. In designing such an information system, the Department should be instructed to work closely with this subcommittee, the companion subcommittee in the Senate, and the higher education associations.

Finally, we urge the subcommittee to address the disincentives that discourage parents from saving for their children's education. Under need analysis procedures, families who have saved carefully for college and have resources set aside are less likely to be eligible for aid than an otherwise identical family who spends, rather than saves, its discretionary income. Savings are assets that limit a family's financial need. Moreover, because many savings are taxed, there is a double disincentive. Parents can get around that problem by using tax advisors. But that is unfortunate—parents who save money for college (and thereby limit their need for public resources) should not have to use sophisticated strategies to shelter their resources. We should encourage saving for college over the long term, especially among middle income families.

To do so, we suggest that a program of educational savihgs accounts be created. Similar in design to Individual Retirement Accounts (IRAs), these accounts would encourage parents to save for future college expenses through tax-free savings plans. The Reagan Administration has advanced such a proposal, as has Senator Dole. These plans, which differ considerably in design, may provide appropriate models for crafting a House version of such a plan.

In summary, we urge the committee to think broadly about the future of higher education and the position that federal student aid occupies in it. The suggestions we have made today—reassert the primacy of Pell grants for the neediest students, thoroughly consider major changes in the structure of student aid programs, improve data collection on the distribution and utilization of federal student aid, and establish a program of education savings accounts—are all valuable steps for this subcommittee to take as it establishes the framework for student aid policy in the 1990s.

We would be pleased to answer any questions you have.

Mr. Gaydos. Thank you very much.

Without objection, all the statements presented today will become part of the permanent record.

Again, without objection, the 5-minute rule will shrink to 3 minutes. I at this time call upon Mr. Petri.

Mr. Petri. Thank you for your testimony. I look forward, I hope, to working with you as we go about our business.

I have no questions at this time.

Mr. Gaydos. Mr. Solarz?

Mr. Solarz. I have no questions, Mr. Chairman.

Mr. Gaydos. Mr. McKernan?

Mr. McKernan. I have just one question.

You talk about your proposal on guaranteed student loans, and you talk about requiring no subsidy after graduation. How would you feel about a phasein of no subsidy? For example, a student 1 year out of school might get a subsidy, which would be phased out after 2 or 3 years so that there would then be no subsidy after the student has been in the workforce for, say, 3 years?

Mr. Seipelt. Yes, Mr. McKernan, I believe that my plan has tried to approach the Guaranteed Student Loan concept from a more fiscal arrangement in terms of monetary considerations of the budget that the Congress is trying to deal with. I personally believe that there should continue to be some consideration of a lower interest cost to students especially in their early years as they get out of school. Congressman Petri made a comment prior to this concerning defaults that I totally agree with. It is not a relationship that a student doesn't want to pay. Many times it becomes the circumstances surrounding that student in his inability to pay.

I would be perfectly agreeable to some kind of phased-in approach during the repayment period, but that becomes the major stumbling block that we have with budgets and policy as it relates to the guaranteed loan program: The outyear subsidies are eating up current-year eligibilities.

Mr. McKernan. I understand that. My question is whether or not a 3-year phasein of your proposal eats up the dollars or whether it is the 10 or 12 years worth of that subsidy that is causing the fiscal problems.

Mr. SEIPELT. I believe the phase-in of 2 to 3 years would substantially help the numbers. But obviously any phase-in would still be a cost item as it goes to the outyears' considerations.

Mr. McKERNAN. Thank you.

Thank you, Mr. Chairman.

Mr. GAYDOS. Thank you very much.

The committee will stand adjourned until the 19th or 20th, when loan defaults and collection activities will be the subject matter.

Without objection, the session is at an end.

[Whereupon, at 10:50 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

MICHIGAN TECHNOLOGICAL UNIVERSITY,
SCHOOL OF BUSINESS AND ENGINEERING ADMINISTRATION,
OFFICE OF THE DEAN,
Houghton, MI, June 13, 1985.

Congressman WILLIAM D. FORD,
U.S. Congress, House of Representatives,
Washington, DC.

DEAR CONGRESSMAN FORD: At the request of Elchanan Cohn and Stephen Hoenack, editors of the Economics of Education Review, I have just revised the enclosed paper, "The Educational Credit Trust: A Proposal for Reconstitution and Reform of the Student Loan System," a proposal prepared in late 1982 for a Sequoia Institute task force sponsored by the U.S. Department of Education at the behest of the White House. Not surprisingly, there was little support for the proposal within the Department, and the modest interest elsewhere was insufficient to overcome intradepartmental resistance.

The paper will be published in January, and Cohn, with what are probably grandiose expectations concerning the degree of interest which can be stimulated, plans a prepublication publicity campaign. Notwithstanding my more pessimistic expectations, I have begun to tentatively explore possible Congressional and "public" interest, especially in the context of reauthorization of the Higher Education Act.

I realize that this proposal is significantly at variance with the established positions of many of the members of the postsecondary education subcommittee, with the stated objectives of most (all?) of the higher education associations (which would prefer to retain and extend the existing system) and with the recommendations of such bodies as the erstwhile National Commission on Student Financial Assistance. However, I would think that many would find the ECT proposal superior in at least some respects to the status quo (especially as the status quo might be modified, through, e.g., imposition of more stringent income and debt ceilings). Also, conditional on an unsubsidized system, it is, I think, unobjectionable.

In light of the poor prospects for alternative "reforms" and at least potentially adverse changes in current programs, I want to raise the question of the possibility of serious consideration of the proposal by the subcommittee. While substantial opposition can be expected from at least some "educational interests," the current situation (persistent deficits, disenchantment with Federal programs, etc.) is such that the present may be an auspicious time for a "privatization" proposal such as this.

In any event, I would be interested in any reactions which you may have to the proposal.

Sincerely,

STEPHEN P. DRESCH,
Dean and Professor of Economics and Business.

THE EDUCATIONAL CREDIT TRUST: A PROPOSAL FOR RECONSTITUTION AND REFORM OF THE STUDENT LOAN SYSTEM

([*]BY STEPHEN P. DRESCH, DEAN AND PROFESSOR OF ECONOMICS AND BUSINESS, SCHOOL OF BUSINESS AND ENGINEERING ADMINISTRATION, MICHIGAN TECHNOLOGICAL UNIVERSITY, HOUGHTON, MICHIGAN 49931)

1. THE STATUS QUO, CIRCA 1985

Federal student loan policies and programs have evolved incrementally over the past thirty years. The first significant Federal undertaking, the National Defense (subsequently Direct) Student Loan [NDSL] program, was enacted in 1958,[1] prior to which Federal financing of college students had been limited to support for veterans.[2] When, in the mid-1960s, the Federal government launched its first major grant programs for college students,[3] the substantial anticipated budgetary costs of these programs led to the creation of the Federally-insured Guaranteed Student Loan [GSL] program.[4] In contrast to NDSL, which was (and is) funded by direct Federal appropriations (supplemented by ten percent college matching funds), GSL shifted initial funding to private financial markets; the Federal government guaranteed repayment of the loans and provided interest subsidies.

Participants in NDSL had included only the Federal government (acting through the U.S. Office of Education), the college and the student borrower. With the creation of the GSL program the number of participants in the process increased significantly. First, the Federal government encouraged the creation of state guarantee agencies, with the Federal government providing reinsurance. Second, the universe of eligible lenders was expanded to include not only colleges and universities (most of which, in fact, have not elected to act as lenders under the GSL program) but also savings and commercial banks, credit unions and other financial institutions. Finally, the 1972 Amendments to the Higher Education Act of 1965 created the National Student Loan Marketing Association [NSLMA, or "Sallie Mae"], a Federally-chartered entity empowered to purchase or warehouse student loans, thus creating a secondary market in student loan paper.

Superficially, the apparent trend has thus been toward decentralization and diffusion of functions. In actual fact, however, that decentralization has been more nominal than real. Throughout this period the terms on which students have had access to loans have been narrowly prescribed by Federal statutory and regulatory action.[5] At its origin, the GSL program did indeed decentralize capitalization, but that initial movement has been reversed by subsequent developments, as state guarantee agencies have taken on direct lending and secondary market functions (financed by the sale of tax-exempt, and hence Federally subsidized, revenue bonds), and as Sallie Mae has further displaced private capital with funds obtained through the Federal Financing Bank [FFB], a process which is equivalent to reliance on direct Federal borrowing.

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[*] The author designed the Educational Credit Trust [ECT] in 1982 for a Sequoia Institute task force on "Alternative Models for Financing Student Loans" supported by the U.S. Department of Education. The proposal was presented publically at the Sequoia Institute Conference on Student Loans, New York City, 1 November 1983. Appendix I of this paper provides a legislative prospectus for the ECT. Appendix II presents a detailed analysis of the financial implications of the proposal for borrowers and lenders. The author acknowledges the contributions to the development of the proposal of Sal Corrallo and Daniel Morrissey, U.S. Department of Education, Ira Burney, Health Care Financing Administration, Adair L. Waldenberg, Northwestern University (previously Institute for Demographic and Economic Studies), former U.S. Representative Andrew Maguire, Robert B. Hawkins, Jr., Sequoia Institute, Daniel A. Updegrove, EDUCOM, Robert D. Goldberg, and Kurt Corriher. The present paper and proposal were possible only on the basis of the author's prior work on student loan programs, supported, directly or indirectly, by, t3 inter alia, the Ford Foundation (1970-72), the Alfred P. Sloan Foundation and Yale University (1972-75), the U.S. Office/Department of Education (1975-1983), the U.S. Department of Health, Education and Welfare (1975-78), the National Commission on Student Financial Assistance (1982), the International Institute for Applied Systems Analysis (1983-85), the Institute for Demographic and Economic Studies (1975-85) and Michigan Technological University (1985). Of course, none of the foregoing individuals or institutions is responsible for or can be presumed to endorse the specifics of this proposal.

[1] NDSL was one component of the National Defense Education Act of 1958 (P.L. 85-865). Although this Act also provided for graduate fellowships, NDSL constituted the only program of undergraduate student support.

[2] Veterans educational support had been authorized by the Servicemen's Readjustment Act of 1944 (P.L. 78-346).

[3] College work-study and educational opportunity grants were authorized by the Economic Opportunity Act of 1964 (P.L. 88-452).

[4] The GSL program was authorized by the Higher Education Act of 1965 (P.L. 89-329).

[5] For example, even such specifics as the terms under which borrowers entering repayment status can consolidate loans from multiple lenders have been subjected to precise statutory determination.

The gradual displacement of NDSL by GSL resulted in a corresponding shift from "on-budget" to "off-budget" capitalization. Nonetheless, Federal budgetary costs for the program have increased dramatically, as the volume of outstanding loans, interest rates and subsidies, and defaults have increased. Prior to the 1980s statutory changes in the GSL program only accelerated this explosive growth of costs. In 1972 a floating Federal interest subsidy (the "special allowance") tied to the three-month Treasury bill rate was added, and in 1978 the income ceiling on eligibility for full in-school interest subsidies was eliminated. Despite substantial increases in all other interest rates since 1965, the GSL interest rate (confronting the borrower) remained constant (at seven percent) until 1981, when it was raised to nine percent (although the rate remained at seven percent even on new borrowing for those fortunate enough to have borrowed prior to the increase in the rate).[6]

If the recognized, "on-budget" costs of student loan programs have increased dramatically, the t3 true Federal costs have increased even more phenomonally. For example, the Federal tax subsidies incorporated in loans which are financed through tax-exempt debt issues of state guarantee agencies are rarely recognized as a cost of the student loan system, and these indirect tax subsidies outweigh substantially the savings attributable to the lower special-allowance interest subsidy paid on loans financed through tax-exempt borrowing.[7] Even less commonly recognized are the future costs which the Federal government will incur, not on future new loans but on loans which have already been made, when it is conservatively estimated (Dresch, 1980) that each $1,000 loan will involve subsidies with a present value (at the time the loan is made) of at least $300 and possibly as much as $500, the budgetary recognition of which will be distributed over a period of ten to twenty years.

Costs increased especially explosively after the post-1978 rise in the general level of interest rates (with the GSL rate held constant or increased much less than correspondingly) and elimination of the income ceiling for full in-school interest subsidization, which together induced rapid increases in the aggregate levels of student borrowing.[8] At least in part because of this explosive increase in costs, however, permissible (annual and aggregate) levels of individual borrowing have not been increased since 1972, despite the fact that college costs and other prices have more than doubled over the intervening years. Thus, paradoxically, although the program has served an ever growing proportion of college students, it has simultaneously become progressively more inadequate as a source of educational financing for a growing proportion of students.

The limitation of permissible levels of borrowing has also been due in part to the requirement that loans be repaid over a relatively brief period following completion of college. Thus, both NDSL and GSL require repayment over a period of ten years commencing with departure from school, even though this is a period of relatively low earnings by comparison to earnings over the entirety of the former student's working lifetime. Implications for Federal budgetary costs (interest subsidies on larger outstanding balances over longer periods) have contributed to the prevention of any significant easing of this short repayment schedule, which in turn has reinforced the direct effects of high rates of subsidization in preventing any significant increases in permissible levels of borrowing.

Even apart from budgetary considerations, the extreme *de facto* centralization of the system has itself severely limited the capacity to increase permissible levels of borrowing and to liberalize the terms of loan repayment. Because of this centralized, unified system, students in all programs, in all institutions and at all levels of study confront identical borrowing opportunities. As a result, all provisions become keyed to the lowest common denominator. To insure that "short-cycle" vocational-technical students and those with lower earnings prospects do not incur "excessive" debt (and hence to limit the Federal government's exposure to default losses), permissible borrowing levels (annual and cumulative) must be held down. And with relatively low levels of accumulated debt, it is unnecessary to provide the more flexible, extended repayment terms which would be required if students in prolonged, high-cost programs of study were to have access to adequate financing. As a result, in those cases in which the general student loan programs are most seriously inadequate, as, for example, in the case of medical students, it has been necessary to create separate programs. However, even these special programs have been rigidly defined by statute, and students in many high-cost, specialized programs find themselves with only the seriously inadequate general student loan options.

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[6] The rate has subsequently been reduced to eight percent, although, again, it remains at nine percent, even on new borrowing, for those now unfortunate enough to have first borrowed when the rate was nine percent.

[7] In general the special-allowance interest subsidy is equal to the three-month Treasury bill rate plus 3.5 percentage points less the nominal interest rate on the student loan. In the case of loans financed by state guarantee agencies issuing tax-exempt debt, the special allowance is reduced by 50 percent, i.e., is equal to one-half the rate determined by the foregoing formula.

[8] The rise in interest rates, with the GSL rate virtually constant, implied significant increases in the relative subsidization of GSL loans. This interacted with the elimination of the income ceiling on full in-school interest subsidization to substantially increase the demand for GSL loans because of the relatively greater sophistication of higher income families in recognizing the implicit benefits of highly subsidized loans.

While many students confront inadequate access to loans, by comparison to the financial demands of their programs of study and the other financial resources at their disposal, the extremely high degree of student loan subsidization has encouraged other students (and their families) to substitute loans for other traditional sources of financial support, e.g., parental support and student employment. The point is not that many students have flagrantly abused the student loan system, although it is undoubtedly true that some have. The point is, rather, that it makes no sense for parents to liquidate assets or to incur other debt (or even for students to work) when highly subsidized student loans are available to cover the expenses of schooling. Thus, the deficiencies of the existing student loan system have created an anomalous situation in which one class of students is encouraged to borrow more money than it needs, while another class cannot borrow enough.

In summary, the current situation is one in which the student loan system (1) is highly centralized, (2) imposes substantial and growing demands on the Federal budget, (3) is progressively less capable of meeting the financial needs of a growing class of students, (4) concentrates the burden of loan repayment in the immediate, low-earnings years following college, and (5) simultaneously encourages the substitution of loans for other sources of financial support for schooling.

2. PRINCIPLES AND OBJECTIVES FOR RECONSTITUTION AND REFORM

A number of proposals for reform of the student loan system have been put forth over the last twenty years.[9] While many of these have responded meaningfully to one or more of the inadequacies of the existing system, each also has serious deficiencies. In some cases these derive from a desire for political "viability" and a consequent insistence on "incrementalism" in the further development of the system, in others from vitiating "hidden agendas."[10] In no case has a comprehensive proposal for reconstitution and reform been based on (a) a serious examination of the deficiencies of the t3status quo and (b) an explicit statement of principles on which reconstitution of the system should be based. The proposal for reconstitution and reform set forth in the next section has been developed without serious concern for political viability, is devoid of implicit objectives and is explicitly predicated on the foregoing (admittedly brief) assessment of the key deficiencies of the current system and on the following fundamental principles.

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[9] One of the earliest proposals is that of the Zacharias Panel (Panel on Educational Innovation, 1967) for an Educational Opportunity Bank, a proposal analyzed by economists at MIT (Shell t3et al., 1968 and 1970). The more prominent of relatively recent proposals, including Boston University President John R. Silber's Tuition Advance Fund, legislative proposals developed jointly by former Congressman Andrew Maguire and the late Congressman William Steiger, culminating in the Fair Access to Higher Education Act, and the National Student Loan Bank proposed by Senator Henry L. Bellmon, have been intensively analyzed by Dresch (1980). Proposals for reconstitution and/or reform are more or less prominent in a number of commentaries, critiques and analyses of the evolving system, including Friedman and Kuznets (1945), Friedman (1955), Vickery (1962), Daniere (1969), Cook and Stager (1969), Hartman (1971), Dresch and Goldberg (1972), Johnstone (1972), and Nerlove (1975). Interestingly, the more entrenched the system has become, the less intense and competent has been the attention which has been devoted to the subject.

[10] Thus, for example, the various Maguire-Steiger legislative proposals suffered (although significantly less than most proposals in this domain) from the sponsors' belief that general desubsidization would not be tolerated by the House Education and Labor Committee, imposing a "political-viability" constraint, while the Silber scheme represented an implicit mechanism by which to increase substantially the relative subsidization of private by comparison to public institutions of higher education, thus serving primarily to realize a "hidden agenda."

2.1 Subsidization

Principle.—While it may be appropriate to subsidize the schooling of some or all students, implicit, disguised subsidies should not be disbursed on the basis of a self-administered "needs test" which judges little more than the willingness to borrow; decisions concerning Federal subsidization should be reached explicitly through the legislative process, and these subsidies should be provided as overt grants to qualifying students and/or institutions.

Direct and indirect subsidies to higher education have been justified on a variety of grounds (generally, putative social benefits or externalities). Here, purposefully, no position is taken on the issue of subsidization in general. However, it is argued that any objective which can be achieved through student loan subsidies can be achieved more efficiently (at lesser economic and budgetary cost) by other means, e.g., grants to students and/or institutions. In contrast to this position, some (most recently, members of the now-defunct National Commission on Student Financial Assistance) have argued that loan subsidies have greater "leverage" than other forms of subsidy, i.e., generate greater levels of student support per dollar of budgetary outlay. However, the fundamental fallaciousness of this argument as a justification for loan subsidies can be easily demonstrated: If a "loan" which is 50 percent subsidized has a "leverage factor" of two ($1 of subsidy underwrites $2 of loans), then (a) a loan which is 10 percent subsidized has a leverage factor of 10 (a $1 subsidy underwrites $10 of loans), and (b) an unsubsidized loan has a leverage factor of infinity (any number of dollars of loans can be underwritten without incurring any subsidy costs). The relevant question is not one of "leverage" but is, rather, how can the Federal government most efficiently (at lowest cost) achieve any given objective, and is achievement of that objective worth the cost? Economic theory strongly supports the proposition that loans will not provide the most efficient means of achieving any Federal objective other than that of providing students the opportunity to borrow to finance investments in schooling. And that opportunity can be provided at no significant cost to the Federal government if student loans are unsubsidized.

2.2 Diversity, Decentralization and Competition

Principle.—American higher education is extremely diverse, and the student loan system should recognize and respond to this diversity, flexibly offering loans on terms tailored to such factors as, e.g., the duration of study, the costs of schooling, the ages of students, requirements for postschool training, and long-term earnings prospects. Accommodation to diversity can best (perhaps only) be achieved with a highly decentralized system, each component of which adapts its offerings to the unique characteristics of its student clientele. Responsively meeting the needs of students at minimum possible cost requires competition among lenders and freedom of entry into the system on the part of potential lenders.

Because of differences in the costs and duration of schooling and of postschooling financial prospects, a single, unified system offering loans on identical terms to all students will necessarily fail to meet the needs of many if not most students. Moreover, it is highly unlikely that an institutionally unified, monopolistic system will be capable of flexibly adapting specific programs to specific groups of students. Such flexible adaptation will be facilitated by a decentralized system in which lenders are encouraged, through competition, to identify and respond to the demands of particular groups of student borrowers. Most importantly, competition between actual and potential lenders will minimize the costs of loans to borrowers.

2.3 Terms of educational financing

Principle.—Credit for financing an investment in education should be available on terms which are not inferior to those on which other comparable long-term investments can be financed.

Efficiency in the allocation of the nation's economic resources to alternative investments requires that the terms on which one investment can be financed, ceteris paribus, not be more onerous than those on which other investments can be financed.

2.3.1 Access to credit

Principle.—It should be possible to utilize debt financing to cover a significant proportion of schooling costs, and access to debt financing should not require a demonstration of "need" in the conventional sense of "needs analysis."

It is appropriate to make access to credit conditional on the undertaking of a productive investment, the returns to which are expected to be sufficient to permit amortization of the debt, but it is inappropriate to make access to credit conditional on an arbitrary demonstration of "need." No criterion for the determination of need can fully take into account the unique circumstances of each student, and the inadequacies of needs analyses underlying the distribution of grants should not be carried into the student loan system. If the student loan system is truly unsubsidized, then a demonstration of need is unnecessary for any purpose other than foreclosure of opportunities to individuals for whom needs analysis significantly misrepresents actual financial capacities.

2.3.2 Amortization in relationship to returns

Principle.—As in the case of other investors who are able to amortize debt in reasonable relationship to the flow of returns to the investment, students should be permitted to amortize their educational debts over a significant fraction of their working lifetimes and to relate the time profile of payments to the actual or expected profile of earnings.

Just as it would be absurd to require that an investment in a factory or home be financed on terms identical to those on which dishwashers or vacations can be financed, it is equally absurd to impose such "consumer loan" terms on students, for whom education is a productive investment, one which is often as great as is an investment in a home for many families. In order to relate loan amortization to the flow of returns, the lifecycle profile of earnings must be recognized, since earnings rise significantly with age and experience, especially for the more highly educated. Thus, the term of repayment should be significantly longer than the ten-year period incorporated in current programs, and the level of loan payments should be permitted to rise in step with the expected earnings growth of the borrower.

2.3.3 Protection against financial uncertainties

Principle.—Loan options should not confront students or lenders with unnecessary risks associated with uncertain future rates of interest, inflation and earnings growth. This requires that the specific terms of student loans (interest rates and levels of payment) be permitted to vary with financial conditions.

Students who borrowed in an inflationary period in which interest rates were extremely high should not be saddled with high interest rate obligations if rates of interest, inflation and earnings growth subsequently decline. Conversely, lenders should not be "required" to incur the losses associated with unanticipated rises in general levels of interest rates; to attempt to force lenders to absorb such losses will simply result in either an increase in the interest rates imposed on student loans or reductions in the supply of capital to the student loan system. In light of high correlations between (a) interest rates, (b) rates of inflation and (c) rates of earnings growth, both borrowers and lenders can be protected against the risks associated with financial uncertainties if interest rates on student loans are permitted to vary over the life of the loan with general levels of interest rates and if other terms of these loans are correspondingly varied.

2.3.4 Insurance against the risk of low earnings

Principle.—Students should be permitted to insure against the substantial risks associated with investments in higher education, particularly against the risk that future earnings will be lower than anticipated. However, such insurance should not constitute a subsidy or transfer from students entering more remunerative occupations to students electing traditionally nonremunerative fields.

The risks associated with investments in higher education are substantial, and provision for some degree of pooling of these risks will encourage efficient levels of investment in schooling. However, it is inappropriate to use insurance or risk-pooling mechanisms to subsidize the education of persons who can anticipate t3ex ante that they will experience low earnings over their lifetimes. If subsidies to students electing nonremunerative occupations are deemed socially desirable, then efficiency and equity require subsidies which are (a) provided as explicit grants to all students entering the designated occupations, not only to those who were forced to borrow to attend school, and (b) financed by general taxes rather than by specific "taxes" levied only on those former students unfortunate enough to have had to borrow to finance their schooling.

2.4 Federal role

Principle.—The Federal government does have a legitimate interest in an effective student loan market. Moreover, some degree of Federal involvement is required, precisely because private markets do face severe constraints in this domain. However, this governmental interest can best be served by creating conditions under which private parties are encouraged to respond flexibly and creatively to the financial needs of students. Conversely, legitimate governmental interests do not require the creation of a governmental or governmentally-sanctioned monopoly.

Because of Constitutional prohibitions of involuntary servitude and of related statutory provisions for personal bankruptcy, students usually have little or no collateral which they can pledge to a lender. Thus, governmental action is required if the legal status of the lender's claim is to be assured. There is also a legitimate governmental interest in insuring that all classes of students are adequately served by the student loan system. However, this interest does not require that all student loans be made by governmental or quasi-governmental agencies or that the terms of all student loans be specified by governmental fiat. Where private instrumentalities serve the needs of students, direct governmental action is both inappropriate and unnecessary.

3. A proposal for reconstituting the student loan system

While this proposal calls for radical changes in the student loan system, it also recognizes that this system exists and incorporates key elements in productive ways. The proposal invisions substantial functions for many of the current institutions in the system. In contrast to other proposals, which would provide only superficial responsibilities for the state guarantee agencies and Sallie Mae (but which, for purely political reasons, would not abolish these entities), this proposal suggests much more important roles for these institutions.

Because the structure of the system effectively determines its functioning, the institutional entities which would comprise the reconstituted student loan system are described first. Attention then turns to the financing of the system, student entitlements and loan terms.

3.1 Institutional participants in the reconstituted system

3.1.1 The Educational Credit Trust

This Federally-chartered corporation would constitute the only distinctly new entity created under this proposal. The functions of the Educational Credit Trust [ECT] would be (a) to monitor and, to the extent necessary, to regulate the performance of other institutional participants in the student loan system, and (b) to provide initial, limited and subordinated financing for other participants. In its first role it would (a) monitor the financial performance of lenders to insure the financial integrity of the system, (b) determine the eligibility of lenders proposing to enter the system, and (c) sanction the terms on which student loans are made. In its second role it would extend credit to eligible lenders in amounts up to 20 percent of their outstanding loans to students (inclusive of accrued interest).

The ECT would be financed by an initial Federal capital subscription (e.g., of $1 billion) and would be authorized to borrow additional funds through the Federal Financing Bank [FFB]. The ECT would make advances to lenders at interest rates 0.5 percentage points above the effective rates paid by the ECT on its own borrowing. This interest rate differential is intended to cover operating costs of the ECT and to permit the eventual repayment of the Federal capital subscription inclusive of interest at the same rates the ECT pays on its other borrowing.

The ECT would be governed by a board composed of designated ex officio federal officials and additional members appointed by the President.

3.1.2 Educational credit corporations

The term "Educational Credit Corporation" [ECC] refers to any entity engaging in direct lending to students. It is anticipated that the existing state guarantee agencies would become ECCs, and these are designated "state-sponsored ECCs." Sallie Mae, which would be permitted to continue to perform secondary market functions, would also be designated an ECC of last resort" for students ineligible to borrow from a state-sponsored ECC. Any other entity or consortia of entities would be permitted to incorporate as an ECC, subject only to approval by the board of the ECT. The requirement for ECT approval is intended only to assure the financial integrity of the ECC.

Each state-sponsored ECC would be required to lend to any eligible student enrolled in an educational institution in the state. Each ECC, whether or not state-sponsored, would designate the group of students to which it would lend, and this group would be referred to as the "ECC-designated eligibility pool." Definition of the designated eligibility pool would be subject to approval by the ECT. The designated eligibility pool could permissibly be defined in terms of either (a) geographic location of the school attended or of student residence, or (b) the specific educational institution or component of the institution (e.g., graduate school, medical school) attended. Thus, a bank could create an ECC to service students living in a certain geographic area (e.g., a county) or attending a school in that area; a university or one component of a university could create an ECC to lend only to its students; a consortium of universities or components could create an ECC to lend to students in any of the member institutions or components; a professional association could create an ECC to lend to students studying to enter that profession; etc. In order to insure against discrimination, an ECC would be required to lend to any student within its designated pool.

3.1.3 Educational institutions

Attendance at an educational institution recognized by the U.S. Secretary of Education as offering a t3bona fide program of postsecondary study would be required for a student to be eligible to borrow from an ECC. The educational institution would be required to certify the student's enrollment status and cost of attendance (total cost less scholarships, fellowships and other grants). ECCs could also contract with educational institutions to perform additional functions, such as loan origination.

3.2 Financing of the reconstituted system

As noted above, the ECT would be capitalized by an initial Federal capital subscription and would be empowered to borrow necessary additional funds through the FFB.

In general, the creators of ECCs would provide the underlying capital of these entities, with initial equity participations and, possibly, subordinated debt. The adequacy of this capital base would be a central concern of the ECT when considering recognition of a proposed ECC.

ECCs would borrow in the financial markets to obtain funds for relending to students. As indicated previously, the ECC would be eligible to borrow from the ECT an amount up to 20 percent of outstanding loans (inclusive of accrued interest). It is anticipated that the ECT and the ECCs would issue short-term debt instruments, e.g., three month bills. The interest rates on such instruments would fluctuate with changes in the financial markets and in the overall economy. The ECT would lend to ECCs at an interest rate 0.5 percentage points higher than the effective rate incurred on its own borrowing. ECCs would be permitted to charge interest on outstanding student loans at rates not exceeding the prime commercial paper rate plus two percentage points. These rates would also be permitted to vary with financial market conditions. The maximum permissible interest rate on student loans should exceed the ECCs' cost of funds (estimated at the prime commercial paper rate plus 0.5 percentage points) by an amount sufficient to cover operating costs of the ECCs and to permit full amortization of the ECCs' debts.

In addition to lending by the ECT to Sallie Mae acting as ECC of last resort (in amounts up to those available to any other ECC, i.e., not to exceed 20 percent of student loan obligations), the ECT could, at its discretion, extend additional credit to Sallie Mae to facilitate its secondary market function, but such additional credit would be limited to 10 percent of the liabilities of ECCs to Sallie Mae. Sallie Mae would not be permitted direct access to the FFB for additional borrowing.

The reconstituted system would require no Federal financial support other than the initial Federal capital subscription and ECT borrowing through the FFB, both of which should eventually be repaid with interest. In other words, this system would be entirely self-financing: Future payments of borrowers would always be expected to be sufficient to discharge the liabilities of the ECCs and the ECT to their creditors (including the Federal government). Finally, interest on all debt issued by the ECT and by ECCs would be subject to Federal income taxes, i.e., there would be no covert Federal tax subsidies to the reconstituted student loan system.

3.3 Student entitlements

Any student below the age of 45 pursuing a program of study at a recognized educational institution on at least a half-time basis would be eligible to borrow up to an "entitlement amount." The entitlement amount would be defined as total schooling costs (including reasonable amounts for room, board and other living expenses) less the full amount of all scholarships, fellowships and other grants. Gifts from parents and other immediate relatives would not be considered. The student would have a right to borrow this amount from any ECC with a designated eligibility pool in which he is included. If he is not included in the eligibility pool of any state-sponsored ECC, he is automatically included in the eligibility pool of Sallie Mae, acting as ECC of last resort.

The only requirements which the ECC may impose as a condition for lending are that the student (1) agrees to be legally bound to meet all terms of his obligation to the ECC, (2) authorizes the ECC to obtain from the Internal Revenue Service copies of his Federal personal income tax return for any year in which he has outstanding obligations to the ECC, and (3) waives the right to discharge his obligation to the ECC through bankruptcy.

3.4 Student loan terms

No limitations would be placed upon the terms of loans offered by ECCs other than state-sponsored ECCs and Sallie Mae as ECC of last resort. However, because all students would have access to a state-sponsored ECC or to Sallie Mae, it can be anticipated that terms offered by other ECCs would be at least as desirable to the student as the limiting terms mandated for state-sponsored ECCs and Sallie Mae. The terms offered by state-sponsored ECCs and by Sallie Mae as ECC of last resort would be permitted to be no more onerous to the borrower than the following:

3.4.1 Interest rates

Interest would be charged on the borrower's outstanding balance at a rate not exceeding the prime commercial paper rate plus two percentage points. This rate would be adjusted on a regular basis (e.g., daily), and interest would accrue and compound accordingly.

3.4.2 Repayment period

While the borrower would be permitted to repay all or part of his outstanding balance at any time, a repayment period of 30 years would be stipulated. The repayment period would commence with the beginning of the first tax year in which the borrower is not an eligible student. The repayment period on past loans would be interrupted for any period during which the borrower is again an eligible student, i.e., those tax years would not count as part of the 30-year repayment period on account of past loans. The 30-year repayment period for any new loans would commence with the first tax year in which the borrower is no longer an eligible student.

3.4.3 Terms of repayment

Prior to the commencement of the repayment period the borrower may elect to pay the full outstanding balance of his account. If he does not elect to do so, his account will be charged an "insurance premium" at the commencement of the repayment period. This premium will be a percentage of the outstanding balance of his account (inclusive of accrued interest). The premium percentage will depend on the repayment option selected by the borrower and is designed to compensate the ECC for the risk of death, default and (under one repayment option) low future income of the borrower.

At the commencement of the repayment period the borrower would be offered (at least) two repayment options, adjustable, fixed-schedule graduated repayment" [AFSGR] and "income-contingent repayment" [ICR].

3.4.3.1 Adjustable, fixed-schedule graduate repayment.—Adjustable, fixed-schedule graduated repayment would provide for a payment schedule which, assuming constant interest rates and rates of earnings growth, would require increasing payments in each successive year (paralleling the growth of the average college graduate's earnings), just requiting the obligation over the 30 year repayment period. However, because interest rates and rates of earnings growth vary from year to year, the schedule would be recomputed each year, on the assumption that the then-current interest and income-growth rates would remain unchanged for the remainder of the repayment period. If the borrower elected this repayment option, the insurance premium would not exceed 10 percent of the outstanding balance of his account at the commencement of the repayment period.

3.4.3.2 Income-Contingent Repayment.—The income-contingent repayment option would provide for payments equal to a percentage of the borrower's "modified adjusted gross income" [mAGI]. Modified adjustment gross income is defined as adjusted gross income plus various tax preference items less a deductible (initially $5,000). In the case of a married borrower filing a joint Federal personal income tax return, mAGI would be the greater of (a) own mAGI were the borrower to file a separate income tax return or (b) one half of joint mAGI less an additional $2,500. Thus, if the borrower's own income, or one-half of joint income, is less than $5,000, no payment is required. Even if the borrower is required to make no payment in a low-income year, that year still counts toward fulfillment of the 30-year repayment period.

If the borrower elects the ICR option, the insurance premium would be no greater than 30 percent of the outstanding balance of his account at the commencement of the repayment period. The percentage of mAGI used in determining payments would be no greater than 0.5 percent per $1,000 of outstanding balance (including the insurance premium) at the commencement of the repayment period. Thus, if the borrower had an outstanding balance (inclusive of accrued interest) prior to imposition of the insurance premium, his balance inclusive of the premium would be $13,000, and he would be obligated to payments no greater than 6.5 percent of mAGI. With an adjusted gross income of $25,000, his mAGI (after deducting $5,000) would be $20,000, and he would be required to pay 6.5 percent of $20,000, or $1,300, for that year. Once determined, the percentage of mAGI used to calculate payments would remain fixed over the repayment period. For borrowers beginning repayment in subsequent years, the initial 0.5 percent per $1,000 balance would be adjusted downward each year to take into account inflation and real secular earnings growth. Likewise, the amounts deducted from income ($5,000 and $2,500, above) would be increased each year at the same rate (inflation and real secular earnings growth), and the indexed amounts would apply to all borrowers in repayment status.

4. PROSPECTIVE FINANCIAL PERFORMANCE AND IMPLICATIONS

The loan terms outlined above, which would constitute limiting terms of loan offerings of state-sponsored ECCs and of Sallie Mae acting as ECC of last resort, have been conservatively specified so as to virtually insure profitability of the lenders (and, hence, of the ECT). Evidence of the financial viability of loan programs employing these limiting terms is presented here, after which financial implications for borrowers are examined. All assumptions underlying these financial analyses are indicated in Appendix II.

For comparison purposes, the analysis considers not only ECCs offering AFSGR and ICR options but also the GSL program. The analysis was conducted in late 1982, and focused on hypothetical loans made in the 1982-83 and later academic years. Financial stipulations and loan terms are those which prevailed (or would have prevailed) in 1982-83. All nominal amounts are specified in 1982-83 dollars. In the case of AFSGR and ICR no substantive changes would result from a respecification in current (1985) dollars, simply because of the effective indexing incorporated in the loan terms. The GSL analysis would be marginally altered by respecification, although the consequences would be minor, with declines in market interest rates offset by a decline in the GSL student interest rate (from nine percent, utilized in the analysis, to eight percent currently).

4.1 Prospective ECC/ECT and GSL Financial Performance

The financial consequences for lenders (and for the Federal government) are most conveniently summarized by considering the present values (at the time the loan is made, discounting at the ECC cost of credit) of lender outlays (initial loan amount and subsequent costs) net of prospective repayments (taking into account borrower mortality and default) on account of a representative cohort of borrowers under any of specified loan programs, normalized per $1,000 initial loan amount. These net present values (losses/subsidies if positive, profits if negative) are presented in Table 1 under three alternative stipulated financial configurations (interest rates and rates of inflation) denoted "high," "baseline" and "low."[11]

In the baseline (realistic 1982-83) situation, the representative $1,000 GSL is estimated to have implied losses (to the Federal government) of $364. In contrast, AFSGR and ICR loans made by ECCs would have resulted in estimated profits of more than $200. Under more pessimistic ("high") real-interest-rate assumptions the GSL loss increases by almost $140, to over $500. While the AFSGR profit would be almost unchanged under the high assumption, the ICR profit would drop by almost 50 percent but would still exceed $100 per $1,000 originally loaned. Conversely, the more favorable ("low") real-interest-rate assumptions would result in a decline in the GSL loss (or subsidy) of almost $100, but the loss would still be substantial ($276); in contrast, the "low" assumptions would have little impact on profits predicted for AFSGR and ICR loans.

Table 2 provides an analysis, under baseline financial assumptions, of the sensitivity of ECC financial performance to the AFSGR and ICR loan terms. In the case of AFSGR a reduction in the insurance premium, from ten to zero percent of the outstanding balance at entry into repayment status, would reduce profits from $218 to $99. A reduction in the allowable differential between the AFSGR interest rate and the prime commercial paper rate from two to 0.5 percentage points would result in a modest loss of $59 per $1,000 loaned, while an increase in the spread between the

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[11] As indicated in Appendix I, the alternative financial configurations are essentially differentiated by the assumed level of the real interest rate. Thus, under the baseline stipulation a real 91-day Treasury bill rate of 1.5 percent is assumed, while the high alternative stipulates 4.5 percent, the low alternative 0.5 percent.

ECC borrowing rate and the prime commercial paper rate from 0.5 percentage points to two percentage points would have roughly comparable impacts (implying a loss of $41). Finally, if the ECC confronted administrative costs twice as great as those assumed ($48 rather than $24 per active account year), AFSGR profits would decline from $218 to $125.

In the case of ICR a cut in the insurance premium from 30 percent to 15 percent of the outstanding balance at initiation of repayment would imply a decline in the profit or surplus (present value) from $215 to $67. A cut in the allowable spread between the ICR interest rate and the prime commercial paper rate from two to 0.5 percentage points would reduce the surplus to $41, while an increase in the differential between the ECC borrowing rate and the prime commercial paper rate from 0.5 to two percentage points would imply a drop in profits to $18. A doubling of administrative costs from the estimated level (from $24 to $48 per active account per year) would reduce profits to $143. Finally, a halving of the repayment rate from 0.5 to 0.25 percent of modified Adjusted Gross Income per $1,000 owed at commencement of repayment (inclusive of the insurance premium) would result in a loss of $21, while a doubling of the deductible from Adjusted Gross Income from $5,000 to $10,000 would reduce profits to $70.

In short, the conclusion that the limiting loan terms mandated for state-sponsored ECCs and for Sallie Mae acting as an ECC of last resort would be consistent with financial viability for these entities appears to be quite robust with respect to underlying financial assumptions (specifically, the real interest rate). Furthermore, the finding that substantially more liberal terms would generally not entirely erode the profitability of the AFSGR and ICR options suggests that significantly less favorable assumptions concerning, e.g., differential rates of participation on the part of persons with different, and objectively founded, income expectations would not seriously threaten financial viability.

It might well be objected that there is no inherent justification for the degree of anticipated profitability in the student loan market. Three responses to this objection can be indicated. First, given the uncertainties concerning actual performance, it may well be appropriate to err in a conservative direction, especially since even a cautiously designed program would not confront borrowers with loan terms which diverge significantly (in terms of the effective cost of funds) from those confronting other classes of investors, as will be indicated. Second, and more to the point, it should be recalled that the indicated terms are limiting: Actual terms could not be more onerous to borrowers than these. However, nothing in the specifications of the system prevents ECCs from offering more favorable terms, and it is precisely in order to stimulate competition between ECCs that freedom of entry into the system on the part of potential ECCs was explicitly stipulated. Especially if the anticipated profits began to emerge, competition would be expected to lead to the emergence of more favorable terms. Finally, the analysis of these mandated terms for state-sponsored ECCs and Sallie Mae has assumed that a representative mix of students would borrow; however, the development of more favorable terms for select subgroups of borrowers, e.g., medical students, would be expected to lead to a degradation in the economic prospects of those students for whom other options did not exist, with the implication that actual profits would be substantially lower than those anticipated here.

4.2 Financial implications for borrowers

Financial implications for borrowers can also be assessed in terms of loan proceeds less the present value (at the time of borrowing) of future loan repayments. In Table 3 such estimates are provided for GSL, AFSGR and ICR, in the latter case considering three lifecycle earnings classes of borrowers (approximately the low quartile, median and high quartile). In all cases it is assumed that the individual has borrowed for four or eight years, that borrowing in the first year was $1,000, with subsequent growth at a rate of seven percent per year, and that previously indicated baseline interest rates were effective over the life of the loan. Payments and loan proceeds are discounted to the time of initial borrowing at an annual rate of 11.5 percent.

Table 3 indicates that the present value of the amount borrowed over the student career is $3,764 for borrowing over four years and $6,957 for eight years of borrowing. Under the GSL program the present value of loan repayments would fall short of the present value of the amount borrowed by $1,047, or 27.8 percent, for borrowing over four years and by $2,894, or 41.6 percent, for borrowing over eight years. That the effective GSL subsidy is greater the longer the schooling period is explained by the fact that no interest accrues on the borrower's obligation until schooling is completed.

Under the AFSGR and ICR options the present value of loan payments would exceed the present value of loan proceeds by a constant percentage (10 percent in the case of AFSGR, 27.6 percent for a low-income ICR borrower, and 30 percent for median and high-income ICR borrowers), regardless of the period over which the borrowing was distributed. Thus, AFSGR and ICR are entirely neutral with respect to the duration of schooling and to the lag from time of borrowing to initiation of repayment.

An alternative to the net present value of loan proceeds less repayments is provided by effective interest rates, as presented in Table 4 for hypothetical borrowers identical to those displayed in Table 3. The student borrowing under GSL would incur an effective interest rate of 6.5 percent on four years of borrowing and of 5.0 percent on eight years of borrowing, again indicating the benefit of delayed payment. In contrast, the AFSGR borrower would incur an effective rate of 12.5 percent regardless of the period of borrowing; the difference between the 11.5 percent nominal interest rate applied to the borrower's obligation and the 12.5 percent effective rate is explained by the insurance premium of 10 percent of the outstanding balance at the time of repayment initiation, which, over the 30-year repayment period, is equivalent to an additional one percentage point on the interest rate. Finally, the ICR rates would range from 13.5 percent to 15 percent (low versus high quartile) for four years of borrowing and from 13 to 14.5 percent for eight years of borrowing; in these cases the 30 percent insurance premium would add slightly less to the effective interest rate the longer the duration of schooling.

Clearly, AFSGR and ICR would be substantially less favorable to student borrowers than GSL. However, by comparison to the three-month Treasury bill rate of 8.5 percent assumed in the baseline analysis, it cannot be claimed that the terms confronted by students are excessively draconian. Moreover, these rates are hardly objectionable when the option of directly subsidizing students and/or institutions is readily available. If schooling is excessively costly, then the appropriate response is to subsidize schooling, not borrowing undertaken to finance schooling.

Finally, a somewhat different perspective on implications for student borrowers is provided by Table 5, which indicates the ratio of payments to income under GSL, AFSGR and ICR for borrowers experiencing low-quartile, median and high-quartile incomes, again on the assumption of four or eight years of borrowing (initially of $1,000, with the amount borrowed rising by seven percent per year). Also indicated is the number of years of repayment under each program for each income group.

Because GSL payments are constant in nominal terms, the ratio of loan payment to income drops precipitously over the ten year period, by 70 percent for high-income borrowers and by 60 percent for median- and low-income borrowers. In contrast, payments relative to income would decline only marginally under AFSGR, which keys payments to the growth of earnings of the representative college graduate over the first 30 postschooling years. For borrowers electing ICR terms payments relative to income would rise marginally due to the $5,000 deduction from Adjusted Gross Income in determining the income base (mAGI) for repayment.

In general, payments in the early postschooling period would absorb a much smaller proportion of earnings under AFSGR and ICR than under GSL. This would be especially the case at lower income levels under ICR. Thus, the student borrowing for eight years and experiencing low-quartile income would make loan payments (in the first year of repayment) equal to 7.5 percent of income under GSL but of less than four percent of income under ICR and AFSGR.

Obviously, except at very high income levels under ICR, borrowers would make AFSGR and ICR payments over a significantly longer period of time than under GSL. However, this would be due in large measure to the reduction in the payment burden in the immediate, low-earnings period following departure from school. Stated differently, AFSGR and ICR succeed in eliminating the GSL subsidy while simultaneously reducing the immediate burden of loan repayment, purchasing these changes at the cost of a substantially lengthened repayment period, but one which clearly does not exceed the period over which the returns to the educational investment are realized.

5. TRANSITION TO THE RECONSTITUTED SYSTEM

In general, no difficulties with the transition from the existing to the proposed system are anticipated. Legislation would simply be enacted which would create the ECT and authorize other aspects of the proposal. The same legislation would terminate all existing student loan programs (primarily GSL and NDSL) on a fixed date in the future. The transition would perhaps be simplest if GSL and NDSL eligibility were cancelled for any school term commencing after June 1 of the transition year.

In light of the institutional adjustments which are required, it would probably be necessary to allow one or two years of preparation for the new system.

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TABLE 1.—AFSGR, ICR AND GSL PROFIT (−)/LOSS (+) PRESENT VALUES PER REPRESENTATIVE $1,000 LENDING UNIT

	Financial (real interest rate) stipulation		
	High	Base	Low
GSL	$501	$364	$276
AFSGR	-209	-218	-221
ICR	-117	-215	-235

Note.—For financial et al. assumptions, see Appendix B.

TABLE 2.—SENSITIVITY OF AFSGR AND ICR PROFIT (−) LOSS (+) PRESENT VALUES OF FINANCIAL AND PROGRAM STIPULATIONS

[Per representative $1,000 lending unit]

	AFSGR	ICR
Baseline	-$218	-$215
Ins. premium equals 0/15 percent (vs. 15/30 percent)	-99	-67
Borrower interest rate equals 10 percent (versus 11.5 percent)	58	-41
ECC Borrowing rate equals 11.5 percent (versus 10 percent)	41	-18
Admin. cost equals $48 (versus $24)/act. acct./yr	-125	-143
Repay. tax rate equals 0.25 percent (versus 0.5 percent)/$1,000 balance	(*)	21

TABLE 2.—SENSITIVITY OF AFSGR AND ICR PROFIT (−) LOSS (+)PRESENT VALUES OF FINANCIAL AND PROGRAM STIPULATIONS—Continued

[Per representative $1,000 lending unit]

	AFSGR	ICR
Deductible equals $10,000 (versus $5,000)	(*)	-70

Note.—Asterisk (*) denotes "not applicable."

TABLE 3.—PRESENT VALUES OF AMOUNTS BORROWED LESS AMOUNTS REPAID FOR FOUR/EIGHT BORROWING YEARS

Present values	Number of borrowing years			
	Four		Eight	
	Amount	Percent	Amount	Percent
Amount borrowed	$3,764	100.0	$6,957	100.0
GSL subsidy (+)	1,047	27.8	2,894	41.6
AFSGR profit (-)	-376	-10.0	-696	-10.0
ICR profit (-):				
Low income	-1,039	-27.6	-1,920	-27.6
Median income	-1,129	-30.0	-2,087	-30.0
High income	-1,129	-30.0	-2,087	-30.0

Note.—Annual amount borrowed is initially $1,000, increasing at rate of seven percent per year. Discount rate is 11.5 percent.

TABLE 4.—EFFECTIVE INTEREST RATES PAID ON ACCOUNT FOR FOUR/EIGHT BORROWING YEARS

[In percent]

	Number of borrowing years	
	Four	Eight
GSL	6.5	5.0
AFSGR	12.5	12.5
ICR:		
Low income	13.5	13.0
Median income	14.0	14.0
High income	15.0	14.5

Note.—Annual amount borrowed is initially $1,000, increasing at a rate of seven percent per year.

TABLE 5.—AFSGR, ICR AND GSL PAYMENTS AS A PERCENT OF INCOME AND NUMBER OF YEARS OF REPAYMENT ON ACCOUNT OF FOUR/EIGHT BORROWING YEARS

	Four borrowing years			Eight borrowing years		
	GSL	AFSGR	ICR	GSL	AFSGR	ICR
Loan payments as percent of income:						
High income:						
1st year	2.7	1.1	2.1	4.7	2.5	4.7
5th year	1.5	.9	2.3	2.7	2.0	5.1
10th year	.8	.8	2.5	1.5	1.7	5.4
Median income:						
1st year	3.3	1.4	2.0	5.8	3.0	4.3
5th year	2.1	1.3	2.1	3.8	2.8	4.6
10th year	1.3	1.2	2.2	2.3	2.7	4.9
Low income:						
1st year	4.3	1.8	1.7	7.5	3.9	3.7
5th year	2.8	1.8	1.9	5.0	3.7	4.1
10th year	1.7	1.6	2.0	3.1	3.6	4.4

TABLE 5.—AFSGR, ICR AND GSL PAYMENTS AS A PERCENT OF INCOME AND NUMBER OF YEARS OF REPAYMENT ON ACCOUNT OF FOUR/EIGHT BORROWING YEARS—Continued

	Four borrowing years			Eight borrowing years		
	GSL	AFSGR	ICR	GSL	AFSGR	ICR
Number of years of repayment:						
High income	10	30	12	10	30	12
Median income	10	30	19	10	30	19
Low income	10	30	30	10	30	30

Note.—Annual amount borrowed is initially $1,000, increasing at a rate of seven percent per year.

Appendix I. Educational Credit Trust of the United States

I. PRINCIPLES

A. Subsidization

Decisions concerning the Federal subsidization of postsecondary education should be explicitly reached, and such subsidies should be explicitly provided as grants to qualifying students and/or institutions. Loan options should be provided which permit students to finance the residual (net-of-subsidy) costs of schooling, but these loans should not constitute a form of disguised subsidy to schooling.

B. Access to credit

Students should be provided access to credit for purposes of financing an investment in postsecondary education on terms which are comparable to those on which other investments can be financed. Specifically, a student should be permitted to utilize debt to finance a significant proportion of his net-of-subsidy schooling costs, and the amortization of the debt should be related to the expected flow of returns to the investment. Amortization provisions should be permitted to vary in relation to the diverse schooling requirements and earnings prospects associated with alternative educational investments.

C. Insurance against risk

Students should be provided the opportunity to insure against the substantial risks associated with investments in postsecondary education, and specifically against the risk of low future income. However, such insurance should not constitute a subsidy or transfer to students electing to enter traditionally financially nonremunerative occupations from those entering traditionally remunerative occupations. Should subsidies to students electing to enter particular occupations be deemed socially desirable, these should be provided as explicit grants to such students (as per Principle A, above).

D. Financial uncertainties

Loan options should not confront student borrowers with unnecessary risks associated with uncertain future rates of interest, inflation and general earnings growth.

E. Decentralization and competition

To enhance the responsiveness of capital-market institutions to the needs of diverse groups of students and to minimize the costs of credit to student borrowers, the student loan system should be decentralized with freedom of entry on the part of potential lenders.

II. DEFINITIONS

A. Secretary

The Secretary of Education or his designee.

B. Educational credit trust

A Federally-chartered corporation empowered to perform all responsibilities assigned to it by this Act. The Board of Directors of the Educational Credit Trust (ECT) shall include the Secretary of Education, who will serve as Chairman, the Secretary of Treasury, the Director of the Office of Management and Budget, and the Chairman of the Council of Economic Advisors, each acting *ex officio*. The Board of Directors shall also include such other members as the President, with the advice and consent of the Senate, may appoint, such members to serve at the pleasure of the President. The ECT shall have such officers and staff as the Board of Directors may determine are required for the effective performance of its responsibilities.

C. Educational institution

Any institution (in the United States or abroad) recognized by the Secretary as offering a *bona fide* program of postsecondary education.

D. Eligible student

Any citizen or permanent resident of the United States who has not attained age 45 and who, on or after July 1, 1985, is pursuing a program of study at an educational institution (in the United States or abroad) on at least one-half of a full-time basis (as defined by the Secretary).

E. Entitlement

That amount which any eligible student is entitled to borrow in any year under the terms of this Act. A student's entitlement shall equal the net costs of schooling, defined as the full costs of schooling (including tuition, fees and reasonable costs of room and board, as determined by the Secretary) *less* the full amount of all scholarships, grants or other gifts designated by the donor as contingent on enrollment in a program of study, regardless of the source of such scholarship, grant or other gift (except that amounts received from guardians, parents or other relatives shall not be interpreted as scholarships, grants or other gifts for purposes of this computation). The amount of the student's net cost shall be certified by the educational institution in which he is enrolled as a condition for receipt of benefits under this Act.

F. Educational credit corporations

Entities (not-for-profit or for-profit) authorized under this Act to make loans to students. Educational Credit Corporations (ECCs) may be created by (a) States of the United States, (b) educational institutions or consortia of such institutions, or (c) such other entities or consortia of entities as may be authorized (on application) by the Educational Credit Trust. The National Student Loan Marketing Association shall be the "ECC of last resort," the functions of which are described below. Except as qualified below, the financial obligations of Educational Credit Corporations shall not be deemed to be obligations of the Federal government of the United States or of its instrumentalities. With the exception of States, which shall have absolute rights (independently or in association with other States or with any other entities) to establish ECCs, any entity or consortium of entities proposing to establish an ECC shall meet such requirements as the ECT shall specify in order to insure the efficiency and financial integrity of the educational credit system. Such requirements shall be explicitly specified in formal criteria adopted by the Board of Directors of the ECT and may be modified as the Board of Directors of the ECT deems necessary. Such criteria or modifications thereof shall first become effective 90 days after their promulgation by the Board of Directors of the ECT, during which period the President or Congress may propose and Congress may enact (subject to veto by the President) modifications thereto. During such 90-day period, all pending applications for recognition as an ECC shall be held in abeyance. Once in effect, such criteria or modifications thereto shall be applied neutrally and fairly in the consideration by the Board of Directors of the ECT of the application of any entity or consortium of entities proposing creation of an ECC.

G. ECC-designated eligibility pool

The universe of students designated as eligible to borrow from an ECC. Each ECC shall clearly and explicitly identify that population of eligible students to which it will lend, on application, up to the full entitlement amount. In the case of a State-created ECC the designated eligibility pool shall include all students pursuing a course of study at an educational institution located in that state and in addition any other group of eligible students which the ECC may specify. An ECC (other than the National Student Loan Marketing Association) created by any entity (or consortia of entities) other than a state shall define its eligibility pool in terms of (a) geographic location of the educational institution attended or of legal residence, and/or (b) specific educational institutions or components of such institutions (e.g., medical schools) attended. Having designated its eligibility pool, an ECC shall loan up to the full entitlement amount to any student within the designated pool, conditional only on the borrower's agreement to the terms of the loan, which terms shall include the borrower's explicit authorization of the ECC to obtain from the Internal Revenue Service (IRS) copies of the borrower's Federal Personal Income Tax returns for any years in which the borrower has outstanding obligations to the ECC. In the case of any student ineligible to borrow from a state-sponsored ECC (i.e., not included in the designated eligibility pool of any state-sponsored ECC), the National Student Loan Marketing Association (Sallie Mae) shall serve as an ECC of last resort, making loans to such students in amounts up to the full entitlement amount on terms defined below.

III. STUDENT LOAN TERMS

Terms on which state-sponsored ECCs and the ECC of last resort (Sallie Mae) will make loans to eligible students shall not be more onerous in any dimension than those set forth below. Offering of less onerous terms by any ECC shall require the express approval of the ECT, which approval may be contingent on the capital structure of the ECC, as discussed further below.

A. Interest

Interest shall be charged on the borrower's outstanding balance for any period at a compound daily rate not to exceed the compound daily equivalent of the effective compound annual rate on prime commercial paper for that period *plus* two percentage points.

B. Outstanding balance

The outstanding balance of the borrower's account shall be recomputed whenever the account is credited or debited. The account shall be debited for (a) interest over the period since the last computation, (b) new loan disbursements to the borrower, and (c) any insurance premia charged to the borrower's account (as provided in III.E, below). The account shall be credited for any payments made by the borrower and for any other credits which may be required according to the terms of the borrower's loan contract with the ECC.

C. Prepayment

The borrower shall have the right at any time to fully or partially discharge his obligation to the ECC by making a payment equal to all or any part of the outstanding balance at the time the payment is made. Any prepayment made after entry into repayment status and election of a repayment option (as set forth in III.F, below) shall not deprive the borrower of the right to any credits to which he may subsequently be entitled under the terms of his contract with the ECC.

D. Loan repayment period

The loan repayment period is that period commencing on the first day of the borrower's first Federal income tax year in which he is not an eligible student and continuing for the number of years specified in the borrower's loan contract, not to exceed 30 years. If, after the commencement of the repayment period, the borrower should again become an eligible student, the repayment period shall be interrupted, and those tax years in which he is an eligible student shall not be considered part of the repayment period. If, during any such period of interruption, the borrower should take new loans under the provisions of this Act, then the repayment period on account of those new loans shall not be considered to have commenced until the first day of the next tax year in which he is not an eligible student. Prior to the commencement or during any interruption of the repayment period, it shall be the obligation of the borrower to provide to each ECC to which he is liable satisfactory evidence that he is an eligible student.

E. Insurance premia

Should the borrower not elect to prepay his full outstanding balance on or before the commencement of the repayment period, his account will be charged a lump-sum amount as a premium for insurance against default, death and other potential risks (possibly including the risk of low income). Any such premium shall be stipulated as a percentage of the amount of the outstanding balance of the borrower at the time of entry into repayment status, which percentage will be related to the terms of repayment selected by the borrower (as set forth in III.F, below), and the dollar amount of the premium shall be added to the outstanding balance of the borrower's account at the time of entry into repayment status and of election of terms of repayment.

F. Loan repayment options

At the commencement of the repayment period any State-sponsored ECC or the ECC of last resort (Sallie Mae) to which the borrower is liable shall offer the borrower the option of one of two alternative methods of repayment: (1) adjustable, fixed-schedule graduated repayment (AFSGR), or (2) income-contingent repayment (ICR). On his election of a repayment option, the borrower's account will be charged an insurance premium (as provided in III.E, above), not to exceed (a) 10 percent of the then-outstanding balance if the AFSGR option is elected, or (b) 30 percent of the then-outstanding balance if the ICR option is elected. Provisions for repayment will then be determined with reference to the outstanding balance at the commencement of the repayment period, *inclusive* of insurance premia thus charged to the account. The terms of the alternative AFSGR and ICR repayment options shall be at least as favorable to the borrower as (i.e., shall result in payments in the following year no higher than required by) the following:

1. Adjustable, fixed-schedule graduated repayment.—At the beginning of each year of a borrower's repayment period the ECC shall determine the "temporal adjustment factor," as defined below, to which it will add the "lifecycle earnings growth rate," as defined below, to obtain the "rate of repayment growth" for that year. The ECC will then determine that schedule of annual payments, rising over time at the determined annual rate of repayment growth, which would be just sufficient to amortize the outstanding balance of the borrower over the number of years remaining in the repayment period, on the assumption that the annual interest rate in effect at the time of the computation will remain in effect for the remainder of the repayment period. The borrower will then make payments over the course of the following year (on terms specified below) which aggregate to the amount computed by the ECC to be required in the first of the remaining years of repayment. At the conclusion of the repayment period the borrower will either (a) receive a credit for any overpayment or (b) make a payment equal to any residual outstanding balance of his account.

2. Income-contingent repayment

The borrower will make payments over the course of the year (on terms specified below) which are equal in the aggregate to 0.5 percent (the "percentage of income," as adjusted pursuant to III.J below) of "modified Adjusted Gross Income" (as defined below) per $1,000 of outstanding balance at the commencement of the repayment period. Modified Adjusted Gross Income (mAGI) is defined as equal to the sum of (a) Adjusted Gross Income, (b) the excluded portion of long-term capital gains, and (c) certain other tax preference items (e.g., tax-exempt interest), *less* (d) $5,000 (a "deductible amount," as adjusted pursuant to III.J, below). In the case of a married couple filing a joint Federal income tax return, mAGI will be defined as the greater of (a) own income (mAGI) were the borrower to file a separate Federal income tax return, or (b) one-half of joint mAGI less $2,500 (a "deductible amount," as adjusted pursuant to III.J, below). The repayment obligation will cease at the end of that year in which the borrower's outstanding balance is reduced to zero or becomes negative, at which point he will receive a credit for any overpayment. At the termination of the repayment period any positive outstanding balance of the borrower shall be forgiven.

Any ECC may, subject to the approval of the ECT, offer repayment terms differing from the foregoing. Further, any ECC which is not either State-sponsored or the ECC of last resort (Sallie Mae) may refuse to offer either of the foregoing options. Only State-sponsored ECCs and the ECC of last resort are required to offer the foregoing options.

G. Legal status of the borrower's liability

The borrower shall be liable under law only to meet the terms of his loan obligation, which *shall not* include any provision under which the entire outstanding balance itself becomes due and payable (except as a payment required as specified above may extinguish the outstanding balance). Only the liability for payments due and payable may be extinguished through the bankruptcy of the borrower. A borrower's account shall be deemed to be in default at any time that any payment is overdue by six months or more, at which time the ECC may take legal action to enforce the obligation, which legal action may include the attachment of property, garnishment of earnings, etc.; the defaulting borrower shall be liable for all necessary legal and collection costs incurred by the ECC.

H. Collection mechanism

An ECC may elect any appropriate mechanism and contract with any appropriate entity for the collection of borrower payments. In the case of any borrower who has elected AFSGR, the ECC may require that the annual payment required in any year be paid in installments not more frequent than monthly. In the case of a borrower electing ICR, at the beginning of any year the borrower shall be obligated to inform the ECC of estimated, expected income for that year, on which basis the ECC shall determine the expected payment required of the borrower for that year and shall specify the installments (not more frequent than monthly) in which such expected payment shall be made. On or before the date on which the borrower is required to file his Federal Personal Income Tax return for that year, the borrower shall provide to the ECC a certified copy of his Federal Personal Income Tax return, as filed, on which basis the ECC will determine the borrower's final liability for that year and will collect any residual amount owed by the borrower or return any excess amount previously collected. Should the borrower's Federal Personal Income Tax return for that year subsequently be amended, it shall be the obligation of the borrower to so inform the ECC and to make such additional payment (receive such additional credit) as may be required. At any time the ECC may exercise its right, authorized by the borrower as a condition for the receipt of the loan, to obtain from the Internal Revenue Service a copy of the borrower's Federal Personal Income Tax return, as filed and amended, for any year in which the borrower had an outstanding obligation to the ECC, for which service the IRS may charge the ECC such fees as are then in effect for this service.

I. Loan origination

An ECC may, at its discretion, contract with any other entity for origination, record keeping and any other service, whether or not for a fee. In particular, an ECC may contract with an educational institution for purposes of originating loans to its eligible students. Failure of an institution to agree to perform such function for any State-sponsored ECC or for the ECC of last resort (Sallie Mae) shall not deprive any student of such institution of his entitlements under this Act.

J. Temporal adjustment factor

The temporal adjustment factor (TAF), which will be announced annually by the ECT, will equal the lesser of (a) the annual rate of increase in the implicit Personal Consumption Expenditure deflator (prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce), (b) the annual rate of increase in the Consumer Price Index (prepared by the Bureau of Labor Statistics of the U.S. Department of Labor), or (c) the annual rate of increase of mean earnings of college-educated workers (as derived from appropriate publications of the Bureau of the Census of the U.S. Department of Commerce), based in all cases on the annual change for the most recent one-year period for which all such measures shall be available. The TAF shall be utilized to adjust the percentage of income (initially 0.5) specified in III.F.2 for all borrowers first entering repayment status after announcement of the TAF, which adjustment shall involve dividing the previous percentage of income by the quantity one plus the TAF (expressed as a proportion); once determined for any borrower, the percentage of income will remain unchanged over the duration of the repayment period. The TAF shall also be utilized to adjust the "deductible amounts" of $5,000 and $2,500 specified in III.F.2, which adjustment shall involve multiplying the previous deductibles by the quantity one plus the TAF (expressed as a proportion); the adjusted deductible amounts shall apply to all borrowers in repayment status. The TAF (expressed as a percentage) shall also be utilized as specified III.F.1 to determine the following year's payments of borrowers electing adjustable, fixed-schedule graduated repayment.

K. Lifecycle earnings growth rate

The lifecycle earnings growth rate (LEGR) is that compound annual rate at which, based on the best available evidence, the earnings of college educated workers , in constant dollars, are expected to increase over the first thirty years of employment. The LEGR shall be determined by the ECT prior to the entry into repayment status of any eligible student borrowing under the terms of this Act, and may be altered at any time that the ECT determines that the rate then in effect is inappropriate. Should the ECT fail to specify a LEGR prior to the entry into repayment status of any borrower under the terms of this Act, a provisional LEGR of 2.5 percentage points shall be utilized. The then-current LEGR shall apply in the computation of the payments to be required in the following year of all persons then obligated to repay under the terms of III.F.1.

IV. CAPITALIZATION

A. Extension of credit by ECT

The ECT shall extend credit to each ECC for purposes of making loans to eligible students. Claims by the ECT against any ECC on account of such extension of credit shall be subordinate to the claims of all other creditors unless the contrary is explicitly specified in the agreement between the ECC and the other (nonECT) creditor. Credit extended by the ECT to any ECC shall not exceed 20 percent of the adjusted net liabilities of the ECC. Adjusted net liabilities of the ECC shall be defined as the sum of all liabilities of the ECC (including liabilities of the ECC to the ECT) which are not subordinate to the liabilities of the ECC to the ECT, less the market value of all assets of the ECC other than loans made directly to eligible students under the terms of this Act. Interest on ECT credit extended to an ECC shall be charged for any period at the compound daily equivalent of the effective compound annual rate paid by the ECT on its own borrowing for than period *plus* one-half of one percentage point. Subject to the constraint that total credit extanded by the ECT to an ECC not exceed 20 percent of the ECC's adjusted net liabilities, interest payments to the ECT may be met by the extension of further credit by the ECT to the ECC. In extending credit to an ECC, the ECT may specify conditions as set forth below.

B. Source of ECT funds

The ECT is authorized to utilize the Federal Financing Bank for issuance of debt, the proceeds of which will constitute the sole source of funds advanced by the ECT to ECCs. The terms of these debt issues of the ECT shall be as determined by its Board of Directors, although 91-day bills, refinanced as required, are the anticipated form of ECT borrowing. Operating expenses of the ECT are to be met from the differential between the rate at which it extends credit to the ECCs and the rate which it pays on its own borrowing, with any residual utilized to reduce its outstanding debt. For purposes of initial establishment of the ECT and for other purposes specified below, an amount of $100 million is hereby appropriated. At no time shall the outstanding liabilities of the ECT exceed the aggregate of the liabilities of all ECCs to the ECT. Should it ever be determined that this prohibition may be violated, this prospect shall be reported expeditiously to the President and Congress of the United States, with recommendations for remedial action.

C. ECC sources of funds

In addition to credit extended by the ECT, an ECC may utilize any appropriate mechanism by which to secure funds necessary for purposes of extending loans to students. Sources may include, e.g., sale of equity securities or other forms of capital contributions, sale of notes, bonds or other debt instruments, establishment of lines of credit with financial institutions, and appropriations of governmental bodies. Interest on any debt issued, directly or indirectly, for purposes of obtaining funds for relending to students shall not be exempt from Federal income taxes, any other statutory or other provisions notwithstanding.

D. Secondary market

In addition to serving as ECC of last resort, as specified above, the National Student Loan Marketing Association (NSLMA or Sallie Mae) is hereby authorized to purchase obligations of any other ECC, utilizing the proceeds of the sale of its own debt obligations. However, NSLMA shall not have access to the Federal Financing Bank for the purpose of sale of its obligations. For purposes of determining the maximum credit which may be extended by the ECT to NSLMA as ECC of last resort, the market value of all obligations of other ECCs to NSLMA shall be deducted from the liabilities (not subordinate to those of NSLMA to the ECT) of NSLMA, as will other assets not constituting loans made directly to eligible students under the terms of this Act, and the maximum extension of ECT credit shall equal 20 percent of the adjusted net liabilities of NSLMA thus derived (as stipulated in IV.A, above). For purposes of facilitating the secondary-market function of NSLMA, the ECT may, at its discretion, extend additional credit to NSLMA, such credit not to exceed 10 percent of the aggregate liabilities of all other ECCs to NSLMA.

V. OTHER PROVISIONS

A. Annual financial report

Each ECC shall submit an audited annual financial report to the ECT. The ECT shall then submit a consolidated annual financial report, providing details of the financial status of the universe of ECCs and of the ECT itself, to the President and Congress of the United States.

B. Biennial actuarial report

Every two years, at the direction of and following procedures specified by the ECT, each ECC shall submit to the ECT an actuarial analysis of its lending program. The purpose of these reports shall be to insure the actuarial and financial integrity of the loan programs initiated under the terms of this Act. The ECT shall then provide a summary actuarial report to the President and Congress of the United States. In the event of any evidence of prospective insolvency of any ECC, the ECT shall direct appropriate changes in the terms of the loan options offered by the ECC. To the degree to which anticipated losses on previously negotiated student loan contracts can not be recovered through modifications in terms of new loans (within the constraints specified in this Act), the ECT shall offer its recommendations for actions designed to maintain the solvency of the ECC. In the event that no action is taken by the President and Congress (or any other party) to forestall the insolvency of the ECC, Congress shall appropriate such amounts as are necessary from time to time to meet the obligations of the insolvent ECC to the ECT. If, on the basis of the actuarial reports of the ECCs or of its own actuarial analyses, the ECT should determine that any provision of this Act is inconsistent with the maintenance of the actuarial integrity of the loan programs authorized by this Act, the ECT shall report this conclusion in its actuarial report, with recommendations for amendments to this Act which would restore the actuarial integrity and maintain the financial solvency of the system.

C. ECT approval of ECC loan options

An ECC electing to offer to eligible students loan terms which differ from and/or are more favorable than those specified above (III.) shall obtain the approval of the ECT prior to offering loans on these different or more favorable terms. As a condition for offering its approval, the ECT may require such actuarial evidence of the soundness of the proposed terms as it may deem necessary to insure the financial integrity of the ECC and may further require capital subscriptions, other equity participation or the issuance of debt subordinate to that of the ECC to the ECT, in proportion to that portion of the adjusted net liabilities of the ECC attributable to loans made to students on the proposed terms. However, should the ECT fail to approve the proposed terms, the ECC may proceed to offer such terms on condition that it waive its right to further ECT credit and reach agreement with the ECT on terms of its discharge of outstanding liabilities to the ECT.

APPENDIX II. FINANCIAL ANALYSIS STIPULATIONS AND ASSUMPTIONS

The financial analyses of the adjustable, fixed-schedule graduate repayment [AFSGR] and income-contingent repayment [ICR] loans and of Guaranteed Student Loans [GSLs] were conducted in late 1982. All nominal amounts are thus specified in academic-year 1982-83 dollars, and interest rates and the rate of inflation (assumed to equal the secular earnings growth rate) are those prevailing and/or anticipated at that time.

TABLE A.II.1.—STIPULATED VALUES OF FINANCIAL VARIABLES

[In percent]

High		Base	Low
Federal borrowing rate (91-day T bill)	12.5	8.5	6.5
ECT borrowing rate (T bill plus 0.5)	13.0	9.0	7.0
ECT-to-ECC lending rate	13.5	9.5	7.5
Mean ECC borrowing rate	14.0	10.0	8.0
ECC (student) borrower rate	15.5	11.5	9.5
Gross return to GSL lenders	16.0	12.0	10.0
GSL special allowance	7.0	3.0	1.0
GSL (student) borrower rate	9.0	9.0	9.0
Rate of inflation (income growth)	8.0	7.0	6.0
Default rates:			
GSL	—	6.0	
AFSGR	—	3.0	
ICR	—	1.5	

TABLE A.II.2.—STUDENT PERSISTENCE PROFILE UNDERLYING ESTIMATES OF LAG FROM TIME OF BORROWING TO REPAYMENT INITIATION

Persistence		Distribution
Undergraduate:		
1st year (freshman)	1.00	0.29
2nd year (sophomore)	.75	.22
3rd year (junior)	.60	.17
4th year (senior)	.50	.15
Graduate:		
1st year	1.00—.25	.07
2nd year	.80—.20	.06
3rd year	.40—.10	.03
4th year	.20—.05	.01

TABLE A.II.3.—DISTRIBUTION OF REPRESENTATIVE $1,000 UNIT OF BORROWING BY ULTIMATE EDUCATIONAL ATTAINMENT AND LAG TO REPAYMENT

	Years of Schooling Completed		
	13 to 15	16	17 plus
1-year lag	$145	$72	$72
2-year lag	72	72	72
3-year lag	29	72	72
4-year lag	0	72	72
5-year lag	0	0	72
6-year lag	0	0	58
7-year lag	0	0	29
8-year lag	0	0	14

TABLE A.II.3.—EARNINGS PROFILES AND DISTRIBUTIONS OF EDUCATIONAL ATTAINMENT GROUPS

Profile	Income				Distributions of schooling groups (in percent)		
	1st year	Plateau	Annual increase	Years of growth	13 to 15 years	16 years	17+ years
1	$27,550	$89,650	$2,300	28	0	6	6
2	21,590	56,550	1,840	20	0	0	11
3	19,300	49,890	1,610	20	6	11	11
4	19,280	42,280	1,150	21	0	11	11
5	20,550	37,350	800	22	11	11	0
6	17,550	31,950	800	19	11	11	11
7	15,820	28,240	690	19	11	11	11
8	11,800	26,200	800	19	0	0	11
9	15,150	23,890	460	20	11	11	0
10	14,460	21,820	460	17	11	0	0
11	6,680	22,490	930	18	0	0	11
12	12,210	19,570	460	17	11	11	0
13	2,180	16,580	800	19	11	0	11
14	5,460	12,820	460	17	11	11	0
15	4,630	4,630	0	1	6	6	6

Note.—Earnings profiles are based on 1970 U.S. Census, updated to 1976 utilizing the March 1976 Current Population Survey, with restatement in 1982 dollars (utilizing the implicit Personal Consumption Expenditure deflator). For details of derivation, see Dresch and Goldberg (1972) and Dresch (1980). "Years of Growth" is the year in which plateau is reached, i.e., includes the first year.

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—Volume 1

WEDNESDAY, JUNE 19, 1985

House of Representatives,
Committee on Education and Labor,
Subcommittee on Postsecondary Education,
Washington, DC.

The subcommittee met, pursuant to call, at 9:40 a.m., in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Owens, Biaggi, Hayes, Penny, Atkins, Gaydos, Coleman, Gunderson, McKernan, Henry, Goodling, and Petri.

Staff present: Thomas R. Wolanin, staff director; Kristin Gilbert, clerk; Maryln McAdam, legislative associate; Rich DiEugenio, minority senior legislative associate; and Rose DiNapoli, minority legislative associate.

Mr. Ford. I am pleased to call to order this hearing of the Subcommittee on Postsecondary Education of the U.S. House of Representatives. Today, we continue our hearings begun earlier this month on the reauthorization of the programs contained in the Higher Education Act.

This week concludes a total of six hearings on the guaranteed student loan portion of the reauthorization. It is apparent to us that the Guaranteed Student Loan Program and the ways in which it is financed constitute one of the most complex portions of all of the student aid programs.

Our discussioan today will focus on the issue of loan defaults and collections, including a bill which has been introduced to improve debt collection activities introduced by my colleague and the ranking minority member of this subcommittee, Tom Coleman.

Before yielding to the other members of the subcommittee for any opening comments they would care to make, I want to make this observation: That because we are trying to compress all of this work into 22 hearings in Washington and 10 hearings out across the country and we have so many subjects to cover it has not been possible for us at these hearings on any particular subject to accommodate all of those who wanted to appear physically in front of the committee.

However, if there is anyone here now who wasn't given that opportunity and would like their testimony to appear contemporane-

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ous with that of the other people testifying today, please submit it, and the record will be held open to receive it. And that includes comments that you might wish to make after hearing people who testify today. If anybody out there has a good idea that is going to help us make these programs more effective, we are certainly open to suggestion.

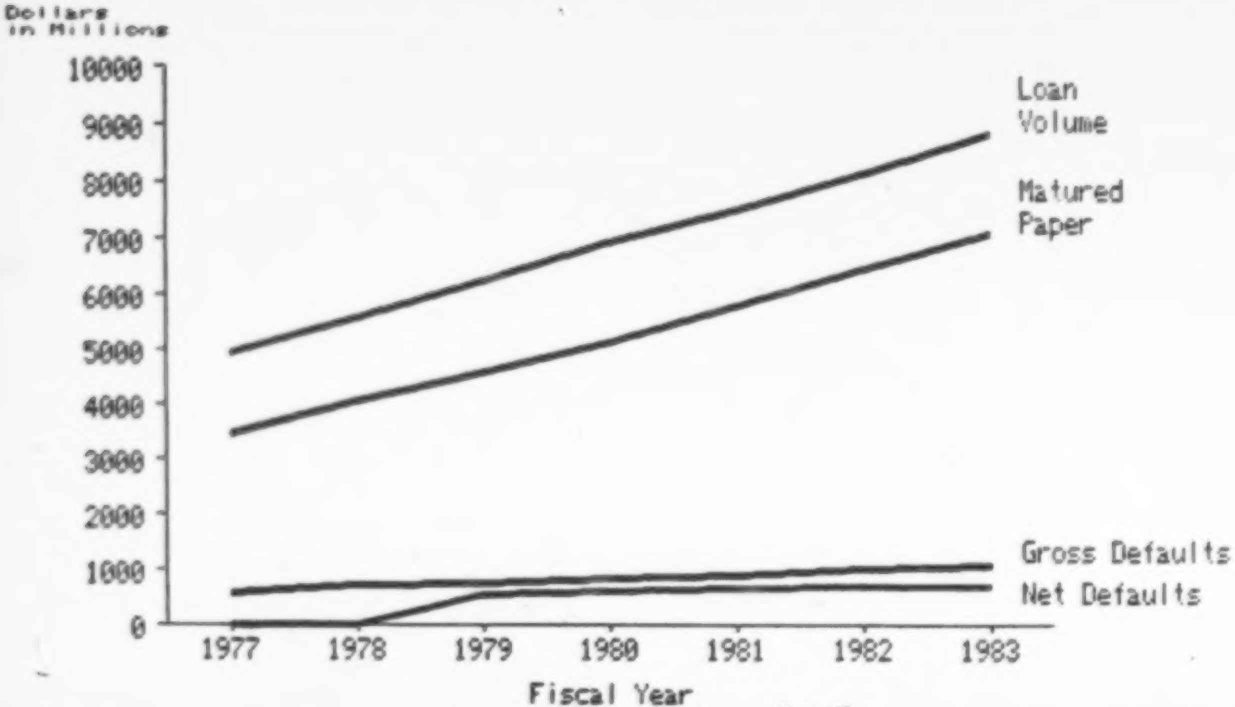
Mr. Coleman.

Mr. COLEMAN. Mr. Chairman, thank you. I would like to put my full statement in the record and make a few observations and comments from that statement.

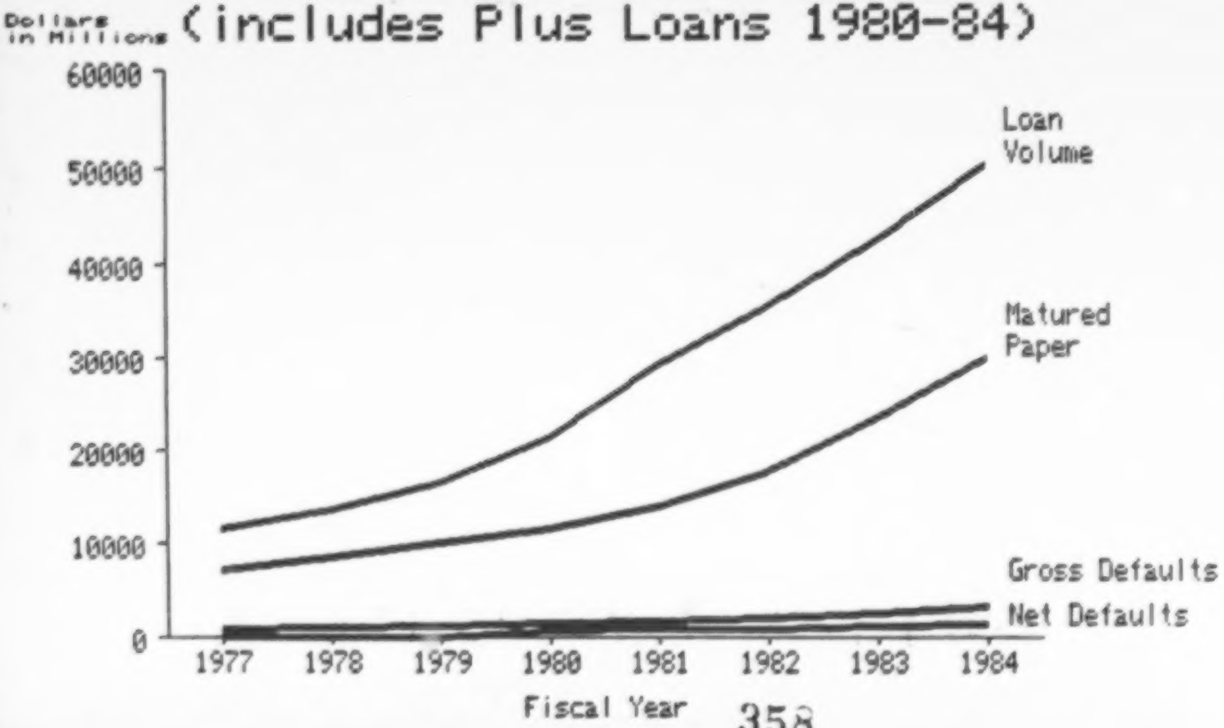
Today's topic is defaults. We need to make sure that the credibility of our loan programs and the support for these programs is not eroded because high default votes. As a result, I believe that it is very good that we are going to have this hearing today.

[The charts follow:]

National Direct Student Loans



Guaranteed Student Loans
(includes Plus Loans 1980-84)



The charts on the wall, on my right and your left, show that increasing college enrollments coupled with a larger number of loans entering repayment have resulted in tremendous growth of the GSL Program during the past 8 years. As a result of this expansion a parallel growth in defaults has occurred.

Since the Federal Government first began subsidizing low interest loans, students have borrowed, $57 billion to help pay for the cost of their education, a figure almost hard to conceive. Some $36 billion of this amount has now reached the repayment status, with some $5 billion of the loans in repayment actually in default. These borrowers in default, for reasons ranging from unemployment to simply avoiding paying their debts, or somewhere in between, have failed to start or keep up with repaying their college loans.

The Department of Education calculates these default rates in a very tricky way, and before we being a discussion on default rates, it is important to define exactly what they are. In calculating the gross default rates in the GSL Program, the total dollar amount of loans in default is divided by the cumulative dollar amount of matured loans. The net GSL default rate is derived by subtracting from that cumulative GSL default total: first of all, the collections on defaulted loans; second, they subtract the loans transferred to private collectors; third, the loans being litigated by the Department of Justice; and, fourth, the loans that have been written off. There is continually a question about what we are talking about when we are talking about the default rate.

Now, in the NDSL Program default rates are calculated in a totally different manner. The gross default rates are determined by taking the defaulted loan principal, divided by the total amount borrowed, minus loans held by enrolled students which have not yet reached repayment. After 2 years an institution can turn over a defaulted NDSL loan to the Department of Education for collection. The Department calculates their net default rate by using only those loans in default held by educational institutions.

The charts on the wall indicate the rate at which gross and net default rates have progressed over the past 8 years. To date the actual number of defaulters in the NDSL Program is 1.1 million of the 7 million participants in the program. With approximately 1.4 million of the 24 million participants in the GSL Program having entered default.

We have amended the act through the years to address these default problems. In 1976, we amended the GSL Program by providing incentives to States to create guarantee agencies and to improve loan collection efforts. Over the years guarantee agencies have proven to be most efficient administrators of the GSL Program. We have tried to improve those collection efforts through the years, and we, of course, think that should continue.

In this session of Congress I have introduced in the House and Senator Quayle a companion piece of legislation in the other body, and he will testify very shortly on it, the Student Loan Collection Improvement Amendments of 1985. I would like to briefly touch on the various parts of the bill, and I believe that Senator Quayle will go into greater detail on the specifics.

Our bill outlines a series of reforms to existing programs which will tighten up the system aiming our efforts at those people who should be paying back their loans. First, the bill provides for copayability of GSL checks, making the loan payable to both the institution and the individual student. Second, NDSL defaulters would be liable for some of the costs that the Federal Government incurs in collecting on defaulted loans. Third, State guarantee agencies would be required to report to credit bureaus those borrowers in default status. Fourth, we would eliminate the 2-year limitation—before an NDSL could be transferred to the Department of Education, so that in instances of institution with high default rates accounts could be transferred immediately. Fifth, the legislation proposes that the State statute of limitations, if it is shorter than the Federal limit of 6 years, ought to be extended to 6 years on the Federal level. And finally, those people who have already received loans and are in default should not be eligible to receive any other loans or grants from the Federal Government; this makes good sense.

I am pleased to sponsor this legislation in the House in an effort to promote credibility and integrity in our loan programs.

Mr. Chairman, thank you for allowing me to make this statement. And I look forward to my associate and former colleague in the House, Dan Quayle's testimony on S. 491.

Mr. Ford. Thank you for that ringing endorsement of your bill. [Laughter.]

[The prepared statement of Hon. E. Thomas Coleman follows:]

Statement of Hon. E. Thomas Coleman, a Representative in Congress From the State of Missouri

Today's hearing continues a dialogue we began two weeks ago on the Guaranteed Student Loan program (GSL). Today's topic—defaults and collections have and will raise considerable discussion as we seek ways to improve the GSL program. I believe that the ability to improve collections and decrease defaults within our loan programs will significantly enhance these programs by containing program costs and improving program integrity.

Today's witness list reflects the many participants in our student loan programs—borrowers, lenders, postsecondary institutions, state guarantee agencies and the federal government. This large cast of characters alone makes the issue of defaults a multifaceted one. The determination of precisely why defaults occur and who is to blame for defaults is a complicated one. I believe that the blame for high default rates must be shared by all concerned parties. Together we must seek solutions. I look forward to the testimony of today's witnesses.

Increasing college enrollments, coupled with escalating costs and larger numbers of loans entering repayment have resulted in tremendous growth in the GSL program. The charts on the wall depict the significant program growth which has occurred over the past eight years.

The expansion of these programs is producing a parallel growth in defaults. Since the Federal government first began subsidizing low interest student loans in 1958, students have borrowed $57 billion to help pay the cost of their education. Some $36 billion of this amount has reached the repayment status, with some $5 billion of the loans in repayment in default. These borrowers, for reasons ranging from unemployment, to simply avoiding the debt to pay higher priority bills, or deliberately trying to avoid payment, have failed to start or keep up with repaying their college loans.

The Department of Education calculates these default rates in a tricky way. In calculating the gross default rates in the GSL program the total dollar amount of loans in default is divided by the cumulative dollar amount of matured loans. The net GSL default rate is derived by subtracting from the cumulative GSL default total—(1) collections on defaulted loans; (2) loans transferred to private collectors; (3) loans being litigated by the Department of Justice, and (4) loans that have been written off.

In the NDSL program default rates are calculated in a different manner. The "gross defaults" are determined by taking the defaulted loan principle, dividing by the total amount borrowed, minus loans held by enrolled students not yet having reached repayment. After two years, an institution can turn over a defaulted NDSL to the Department of Education for collection. The Department then calculates the "net default" rate by using only those loans in default currently held by the educational institution.

The charts on the wall indicate the rate at which gross and net defaults have progressed over the eight past years.

To date, the actual number of defaulters in the NDSL program is 1.1 million of the 7 million participants in the program. Approximately 1.4 million, of the 24 million participants in the GSL program enter default.

In the early 1970's when the first substantial group of GSL borrowers began to enter repayment, Congress began efforts to address the problem of student loan defaults. The Education Amendments of 1976 extensively amended the GSL program by enhancing the incentives for States to create guarantee agencies and included many provisions to help guarantee agencies improve loan collection efforts. Over the years, guarantee agencies have proven to be the most efficient administrators of the GSL program.

Since 1976, many additional efforts have been made to improve the collection of loans and work default prevention through both legislative and regulatory change. This trend should and must continue.

In this Congress, I have introduced H.R. 2150, the "Student Loan Collections Improvement Amendments of 1985." H.R. 2150 is a series of seventeen amendments to the GSL and NDSL programs aimed at improving the collections process and reducing default rates. I will not go into an in-depth discussion of the amendments, but I would like to highlight some of the key ways that the bill improves collection efforts:

First, loan checks would be made payable to both the borrower and the postsecondary institution—except in cases of parent borrowers, with the loan check sent directly to the educational institution. This requirement would ensure that students who receive a GSL but then never attend school would not have the use of the GSL for non-educational purposes.

Second, NDSL defaults would become liable for a certain amount of the costs borne by the Federal Government in trying to collect on defaulted loans. It is only fair that defaulters should help bear the costs of collection on their defaults.

Third, State guarantee agencies in the GSL program would be required to report borrower default status information to consumer credit bureaus. Currently, the Department of Education is the only authority to exchange information on student borrowers with credit agencies. State guarantee agencies handle the bulk of student loans. This change represents a further step in the direction of getting GSL borrowers to realize that their student loan is a real financial obligation—like a car loan or a credit car—with serious consequences in case of default.

Fourth, the requirement that NDSL's be in default for two years before they could be transferred to the Department of Education for collection would be eliminated. This amendment would permit the Department to take possession of defaulted loans from educational institutions with poor collection records. This change is long overdue, there are many institutions that have long, clear records of ineffective collections in the NDSL program.

Fifth, the Federal statute of limitations—6 years—would be applied to the collection of GSL's and NDSL's whenever an otherwise prevailing State statute provides a shorter time on the student's liability. This change would provide the federal government with greater control over the time allowed to pursue GSL defaulter.

Sixth, eligibility requirements for Federal student aid would be broadened to provide that any student in default on a loan or owing a refund on a grant would not be eligible for further Federal aid. Current law applies this limitation to students applying for aid at an institution at which they are already in default or owe a refund, but does not prevent students in default from applying for aid at other schools. I believe that a student who owes the federal government a student aid refund at one institution should not be entitled to any more student aid for use at any postsecondary institution.

In my opinion reducing federal default expenditures for the NDSL and GSL program represents a non-controversial objective. It is my hope that the provisions contained in H.R. 2150 will be included in this reauthorization.

I am pleased that we will receive testimony from Senator Dan Quayle this morning on H.R. 2150's companion bill in the Senate, S. 491.

This fiscal year the federal government will spend $800 million in its taxpayers money on new default claims. This represents a significant sum of money—almost equal that which is currently being spent on all non-title IV programs within the

Higher Education Act. I believe that this money should not be spent on defaults but should be spent on making new student aid available.

Efforts aimed at eradicating defaults from our loan programs should be a top priority in reauthorizing loan programs. I urge my colleagues on the Subcommittee, the higher education community and all concerned participants in these programs to continue to fine-tune and tighten programs so that they may continue to fulfill their mission with integrity.

Mr. FORD. Mr. Gaydos.

Mr. GAYDOS. Thank you, Mr. Chairman. I have to apologize up front that I won't be able to hear the witnesses, but I am looking forward to reading their testimony as it appears in the formal record. I have a very short statement, Mr. Chairman.

While all of us recognize the concern about the rate of default in connection with student loans, we may be too willing at this time to revamp a system that, by and large, is not in as serious trouble as it appears. The issue of student loan defaults is not a new one. Defaults have existed in student loan programs and other Government loan programs of many kinds for sometime. I wonder if anyone even knows what the default rate on the National Defense Educational Act loans of the late 1950's and early 1960's was.

The question for us and for our witnesses at this point, as I see it, is to develop systems whereby student borrowers, regardless of their need or the type of postsecondary system attended, understand the importance of paying back the funds and get into the habit of doing so. While I would not overlook the possible merits of providing a grant, rather than a loan program for those most likely to default, it seems to me that we are only postponing a necessary educational experience. Perhaps, since we seem to be able to get a better idea of whom the potential defaulters will be among the borrowing population, it would be wiser to assist them in learning the importance of repaying such assistance.

Be that as it may, it may be that some of the witnesses here today will be able to respond to these fundamental suggestions or to any others that they may have. I, again, apologize that I won't be able to hear the witnesses and have an opportunity to cross examine or to interrogate, but I will look forward to the print record.

And thank you, Mr. Chairman.

Mr. FORD. Thank you, Mr. Gaydos.

I am very happy to welcome our colleague from the Senate, Senator Dan Quayle, who we will be working with on this legislation. I have had the pleasure of working with him on other legislation and I know that he is a fierce and competent person in conference, and look forward to the great cooperation that he and I have had. Senator Quayle has always been more than kind to me because he knows he can beat the ears off me on the golf course any time he chooses to, so he treats me with kindness as an older man.

Senator?

STATEMENT OF HON. DAN QUAYLE, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator QUAYLE. Thank you, Mr. Chairman. I appreciate those comments. And the reason that you refer to my cooperation and conference is because you always seem to win on the issues, and that is perhaps your casual definition of cooperation. But, I, too, have enjoyed a good working relationship with you and other members of this committee on issues of great concern to us.

I think what I will do, Mr. Chairman, with your permission, is go ahead and insert my statement and then just summarize it.

Mr. FORD. Without objection, it is so ordered, and then you comment in any way you please.

Senator QUAYLE. Mr. Chairman, I am here to testify on a bill that I introduced, S. 491, and a bill introduced by Congressman Coleman, an identical companion piece, H.R. 2150, the Student Loan Collection Improvement Amendments of 1985. In the Senate we have approximately 19 cosponsors—on a bipartisan basis, Education chairman, Senator Stafford; and the ranking member, Senator Pell. Therefore, I think it is probably fair to say that the Loan Collection Act will somehow be incorporated in the higher education bill as we proceed.

I want to compliment the chairman for his vigorous pursuit of knowledge and discussion of this whole issue of higher education reauthorization. If I heard him correctly, I believe you are having 22 hearings?

Mr. FORD. Twenty-two here, and ten on the road.

Senator QUAYLE. Twenty-two hearings, ten out in the field?

Mr. FORD. That is a total of 32.

Senator QUAYLE. Twenty-two plus ten, thirty-two hearings. Well, I think it shows the magnitude and also the importance of the Higher Education Act.

I believe that our discussion on the Loan Collection Improvement Act should not necessarily be on how bad or how good it is. I think that the question that we ought to be asking ourselves is can we improve upon the system that we have today? And I think that the answer would come back a very categorical yes, that we can improve on the system that we have today. I think that a statement of facts will show that there is a need and the possibility for improvement. Presently there is approximately $3 billion that are in default. The Federal Government just in fiscal year 1985 will have to spend $800 million on default payments.

Now, when you take that kind of money, and almost $1 billion that the Government is going to have to pay, I think that it would behoove us to see if there are any efficiencies that can be instilled in the program to make it a better program. I don't think that we want to make it burdensome and to deny that critical area of access that all of us that support higher education and support the public funding of higher education, and particularly the student programs, want to see continued.

But I do believe that if you listen to the critics, Mr. Chairman, if you listen to the critics a lot of times they will focus on the so-called default rate and the default loans, and perhaps some will argue that the magnitude of the problem is not as large as the critics point out. I don't want to get into the depth of the problem. The only thing I want is to, hopefully, get a concession that in fact we can do better, that we are talking about a considerable amount of money, and that we are talking about the Government expending approximately $800 million a year on the reimbursement for defaulted loans on an annual basis.

I think, Mr. Chairman, briefly I would just like to summarize. Mr. Coleman basically touched on the principals of our legislation, but I would like, again, to recapture some of the highlights.

They include requiring the GSL checks to be made copayable to the student and the institution the student is attending. I think by doing this obviously we would get the institution involved, knowing who the students are. I am aware, and it has been pointed out to me since the introduction of this legislation, that there are some problems in some States the way the State universities have an accounting procedure where a check which is copayable to them and the student would have to be disbursed into their State treasury and then a new check would have to be cut.

It is not a problem in my home State of Indiana. The people there think this is not only good public policy, but something that they have been practicing for sometime. Therefore, any problems that we find we, hopefully, will be able to work out. But the bottom line is I think it would make a good public policy to pursue that copayment of the checks.

Authorizing the guarantee agencies to exchange information on borrowers in default with credit bureaus. Then this would be within the Fair Credit Practices Act—nothing more, nothing less—since it is an exchange of information which would be helpful on collection.

Permitting the Secretary of Education to add reasonable collection costs to the default owed by borrowers under the FISL and NDSL programs.

Expanding the student eligibility requirement to provide that a student will be ineligible if that student owes a refund on a grant or is in default on any title IV loan at any institution.

And eliminating the requirement that an NSDL loan be in default for 2 years before being assigned to the Department of Education.

Both the Department of Education and the CBO have estimated that this will, will result in savings to the Government, which I think is an additional reason that we ought to see if there is any way that we can improve efficiencies. In this day of high Federal deficits, there is no doubt about it that our creativeness and our ideas and legislative innovations and legislative proposals ought to go in any kind of a direction that would allow or assist in any potential savings.

So, Mr. Chairman, I think that on the surface that this bill, and I know that you will scrutinize this as you do every other piece of legislation that comes before your committee in a very effective, objective way, but I do think that this should be included as our discussions on the Higher Education Act if there is even a possibility, although we will have to wait and see what happens, that it might even be dealt with separately. But I do think as we look at the whole issue that the student loan collection improvement system has always been one of discussion. I think, just to sort of get to the guts of it, to many of the critics of the program this would be somewhat of a way to ameliorate their criticism and get the critics off our back, so to say, of this program and then focus on the merits of what our student aid program, in fact, has been able to achieve over the years.

It is something I know you, Mr. Chairman, and Congressman Coleman and others in this committee support. And I want to pay my respects to Congressman Coleman for his leadership in introducing this fine piece of legislation here in the House of Representatives.

Thank you very much.

Mr. **Ford**. Thank you very much, Senator.

[The prepared statement of Hon. Dan Quayle follows:]

PREPARED STATEMENT OF SENATOR DAN QUAYLE

Mr. Chairman, Members of the Subcommittee, it is a pleasure to be here today to testify before the Subcommittee on Postsecondary Education on a matter of great importance to the continued success of our student loan programs -- that of reducing the incidence of default and improving the collections efforts on student loans that have gone into default.

I would, at this point, like to commend my friend and former colleague, Tom Coleman, for introducing H.R 2150, the companion bill to S. 491, Student Loan Collection Improvement Amendments of 1985, which I introduced in the Senate on February 21, 1985. I know that the Congressman from Missouri is very committed to reducing student loan defaults and improving collections, and I look forward to working with him on this legislation.

I am happy to announce that 19 of my colleagues in the Senate have signed onto the bill as cosponsors, including the Chairman of the Senate Education Subcommittee, Sen. Stafford, and the Ranking Member of that Subcommittee, Senator Pell. Because of the strong support we have for this bill, I would be interested in discussing with the Congressman from Missouri and Members of this Subcommittee ways in which we might move this legislation prior to the reauthorization of the Higher Education Act. As that legislation most likely will not be finished until the end of 1986, I think we should try to take some positive steps now to strengthen the student loan programs, rather than wait for 12 to 18 months.

Mr. Chairman, Members of the Subcommittee, I certainly do not need to tell you of the importance of the Guaranteed Student Loan (GSL) program or the National Direct Student Loan (NDSL) program to the students of our nation. We all agree that we need strong student loan programs. I think we also agree that if we are to ensure strong loan programs, we must do what we can to keep the default rate in the GSL and NDSL programs low and minimize our losses. You and I know that the default rates in the student loan programs are not overly high. As a matter of fact, in my state, the default rate in the GSL program is just slightly under 3%. Many other states have excellent records, as do as many of the institutions participating in the NSDL program. But it is the few schools that have high default rates, and it is the amount of money outstanding in default in the GSL program that has focused attention on this issue. And you must admit that it is very difficult to ignore a figure of $1 billion of defaulted Guaranteed Student Loans, even though that has been spread over a number of years. The Achilles' heel of these student loan programs is defaults, and detractors of the program have used the default issue to condemn the entire program. We can take steps now to prevent such criticism.

I believe that S. 491 and H.R. 2150 will strengthen the student loan programs and help reduce criticism of the default rates in the loan programs. These bills also will help the Department of Education, institutions of higher education, and state agencies to improve administration of the program, prevent more loans from going into default and to speed up and increase the collections that are currently underway for loans already in default.

This bill will also show the taxpayer that we are serious about helping students who want to help themselves, but that the U.S. government is not going to let them get away with not paying back their student loan. For the millions of students that are in repayment or have repaid in full, it simply is not fair to allow some students to skip out on their obligation.

Briefly, Mr. Chairman, H.R. 2150 (and S. 491) would make a number of administrative changes to reduce defaults and improve collections. They include: requiring GSL checks to be made copayable to the student and the institution the student is attending; authorizing guarantee agencies to exchange information on borrowers in default with credit bureaus; permitting the Secretary of Education to add reasonable collection costs to the default owed by borrowers under the FISL and NDSL programs; expanding the student eligibility requirement to provide that a student will be inelgible if that student owes a refund on a grant or is in default on any Title IV loan at any institution; and eliminating the requirement that an NDSL loan be in default for two years before being assigned to the Department of Education. Both the Department of Education and the Congressional Budget Office have estimated that this bill will result in savings to the government, which is one more reason why we should consider enacting this bill sooner rather than later.

I would also like to mention briefly that since introduction of the bill I have learned of a few additional changes that might improve collections or reduce defaults, and I will be looking at those and other suggestions for improvement.

Mr. Chairman and Members of the Subcommitee, I hope you will support this legislation which has been introduced by Tom Coleman. I strongly believe that with it we will be able to strengthen the GSL and NDSL programs and eliminate one of the negative images that is often associated with the loan programs.

H.R. 2150 deserves your support. I look forward to working with you on this bill, as well as on the upcoming reauthorization of the Higher Education Act. Thank you again for the opportunity to testify and I would be happy to respond to any questions.

Mr. FORD. We announced at the outset a procedure that is similar to the one we used in 1979 of trying to avoid having a bill before the committee as we went through the process of examining each of the component parts of the total student aid and higher education reauthorization. This bill is an exception to that, and Mr. Coleman and I have talked about it and we have no problem because it deals with only one segment. Very rarely in the reauthorization do we expect to be dealing with specific legislative proposals other than those that have come in in the form of recommendations from all of the groups that were solicited.

We invited 140 organizations to give us specific legislative language and rationale for that language. That has now been collated and is in the process of redistribution to the 140 organizations. Eighty-seven of them I might say followed the directions. Some did not; but the ones who did not are being considered, also, because they are in a separate compilation. It makes it possible for all of the groups and the people who are testifying to see what everybody else is saying they would like to have in the statute, what their statutory language preference would be.

We have no problem with this as an exception in that regard because it raises some issues that are very important for the reasons that you state. One of the great frustrations that I have had in living with this program from its beginning is that indeed we did have up through the late 1970's very serious neglect on the part of the Government and everybody else dealing with the loans that led to unconscionable levels of default. It was not, as a matter of fact, until 1978 that the U.S. Department of Education sent the very first letter telling anyone that they had a loan that was in default and they would like to have it paid. It was a big effort to actually get them into doing this. I think they do quite well with it now, and the result has been to bring the default rate down.

Like you, I have always been concerned by the fact that no matter how good it gets, in fact, the public perception is that there is a high default rate and that somehow the taxpayers are not getting their money's worth out of this as a result of the failure of the people who have been benefited directly from the loan guarantees and subsidies to be responsive and responsible. I find it very rare when you encounter someone who has not themselves had experience with the guaranteed student loan or a direct student loan to get them to accept the fact that we are dealing with a 5 percent national default rate at the present time. They will tell you 50 or some horrendous figure they read someplace. So the perception is what we have to deal with as well as the reality.

And while some of the things we tried to do in the 1980 reauthorization have been effected, others have not. Loan consolidation was viewed by us as a way of getting big indebtedness back into repayment in a manageable way. We had it for a couple of years and then it sort of went by the boards when we were unable between the House and the Senate to continue it. I think we will be able to straighten that out now because of problems that existed then I am told have been cleared up.

With respect to this particular bill, not until you mentioned it to me this morning did I stop to think about copayment being a problem for State institutions, and I would suspect that there might be a problem in the instance where a full $2,500 loan is taken out in August or September; the money isn't to be expended at that time, so rather than simply endorsing the check over to the school because the tuition won't be due for sometime for the second half of that year, there would be some necessity for the school to repay to the student a part of their $2,500 loan. That gets them into a problem of whether that is considered under the State law to be a State expenditure.

I think that if you assume for the moment the possibility of multiple disbursement that that will be alleviated because you would be making the disbursement contemporaneous with the time when the money was due, and it wouldn't necessitate a large refund to the student at the time that the check was negotiated over.

I have been impressed with multiple disbursement. OMB likes it because it saves some money by their version. Consumer bankers like it if we maintain the present system so that they would have the float. The institutions would like us to make it multiple disbursement, the full disbursement to them and then they disburse it in pieces and they would have the float. And right now we have a lot of differences of opinion as to who is going to get the benefit of the float. My own feeling is that the Government ought to get the benefit of the float, and we will try to work that out. But if we had a multiple disbursement of two disbursements in a semester system and three disbursements in a quarter system, a good deal of that part of the problem would disappear. But we will check as best we can to see if there are any States that we would be putting in a difficult position.

Like you, I have been told, and we have heard in field hearings, that in some parts of the country they are already doing this. That as a matter of practice the bank makes the check payable jointly to the institution and to the student.

The other part of this with respect to reporting loans in default to credit bureaus makes all kinds of sense. But, Senator, I am concerned about the perception again that students would have that this is just another way of looking at the burdens of this obligation, and I think that could be mitigated if we would consider a small amendment to this.

I asked consumer bankers recently at a hearing if it was their practice with other kinds of consumer loans to only report to credit bureaus those that were not properly in repayment. Their response was, no, we report them all. The result of that is that the conscientious person who is in repayment gets the benefit of the good credit rating as a result thereof. So I would like to see us, if we approach this, consider the possibility of picking the appropriate point in the process so that the loan—and if you look at the bill, Mr. Coleman's bill at page 7 at the top says "with respect to any loan," and then it goes on, "for which the Secretary or the guarantee agency has received a notice of default." If you simply strike the notice of default and require the reporting to the credit bureau of everything else that is in the bill, it would be reported when the disbursement was made, information concerning the collection, date of cancellation—all of those things would go routinely to the credit bureau as well, so that a person coming out of school would have the knowledge that their good performance on repayment was going to be a plus for them in the future.

I think that might be another small incentive to have it perform a psychological task for us and help in repayment. And I have discussed it briefly with Mr. Coleman. I think we can work on something like that. But the idea of the reporting is not at all objectionable to me, and I think, however, that if we are going to go that far we will have to see what the people who have to process this have to say about extra paperwork concerns. Certainly some people will be sensitive to that.

But all in all, I have no trouble with the philosophy of what you and Mr. Coleman are trying to do with this bill, and you can be sure that it is going to have my personal, very serious consideration as we craft the bill.

Mr. Coleman?

Mr. **Coleman**. Well, thank you, Mr. Chairman. I want to thank you for those words of support; and qualified support though they are, you always bring to bear the objective view that needs to be put into it. Your points are well taken. At our field hearing in St. Louis we discussed those issues and the response by the lenders was that they would be more than happy to provide information both positive and negative; information on a borrower.

Missouri is one of those States where there may be a problem cutting the other check, and our constitution is one of those where we have a public-private distribution and so forth. We have had testimony—and we might hear today, also, that we can work on this—on the point that if the check was sent to the institution and the student had to come by the financial aid office to pick it up, it would provide sufficient presence to give the student the idea that that money is to be used for educational expenses.

So, there are areas within the legislation for improvement, and we certainly want to work with you and other colleagues on the Senate side.

Thank you for your time.

Mr. **Ford**. Mr. Gaydos?

Mr. **Gaydos**. Senator, let me ask you a question. What would be the highest or lowest, whichever way you want to look at it, default rate that you would say would be acceptable to the American public, or are we talking about a zero rate?

Senator **Quayle**. I think what we ought to focus on is not whether you are going to be at 5 percent or 6 percent or 4 percent, or what; I think that we have to sort of look at this from an institutional programmatic point of view. And the ideas we have put forth in this legislation, in my opinion, no doubt will help make that process that we presently have potentially more efficient. I think that ought to be our focus. I don't think we ought to establish some sort of Maginot line so that everyone will be able to go out and say that we have made it. I think we have to look at it much more from an institutional point of view, rather than a number point of view.

The only thing I would point out is that what really triggers the response of particularly many of the critics of the whole program, Student Aid Program, is the fact that we are spending $800 million a year on default payments. Now, obviously that has grown over the years. But it hasn't grown over the years because of the percentage increase in the defaults. It has grown over the years because of the volume that we presently have.

So, therefore, I think we ought to look at it from really a concept of the procedural point of view, rather than get down and tie ourselves to some particular number.

Mr. GAYDOS. Do you think it is reasonable to compare this program and defaults with other programs that we have such as VA's, farmers loans, and things like that?

Senator QUAYLE. I think it would be OK to compare it.

Mr. GAYDOS. Improperly comparing programs in your feeling?

Senator QUAYLE. I think you can always compare it. I think there is always risk in comparing this program with another program. You will get accused, you know, of mixing apples and oranges, that you don't have the same clientele, you don't have the same whatever system that is presently established. Therefore, we probably ought to say are there any efficiencies that can be taken on an objective, reasonable basis? As I said, I don't want to institute any additional burdens on the student, to have any kind of incentives to not penetrate the access to higher education, and nor do you want to unduly complicate the administrative procedures that universities have, and in particular, the problem that has been brought to my attention since the introduction of this legislation of State universities.

Also, I think you have got to be somewhat careful about, as the chairman points out, the amount of paperwork that you might, in fact, be creating by this.

But I think any kind of comparative basis, you can do that, but I think what we ought to do is to see what we can do to improve this program and say we are striving, we have made inroads, we do have efficiencies, and we do care about the default rate. Because I think that is one of the things that gets a lot of attention, and rightfully so.

I guess what you would say, particularly in the Government, you might want to compare this with some of the private default rates. I think we probably have a little bit higher standard of care since we are dealing with the taxpayers' dollars and the fiduciary responsibility that we have.

Mr. GAYDOS. Would we find ourselves in a catastrophic position if we didn't do anything? If the existing program as we have come to know it and learned to live with it, if it were continued and carried on, do you think it would be in a precarious position, that this is crucial legislation?

Senator QUAYLE. I think this is very important legislation. I think it is important to point out to people that we are trying to improve the system. I think many critics have raised justifiable questions about whether we can do better. And just to say that we are going to ignore the situation I think would probably be a little bit foolhardy and would be counterproductive to what I know you would like to achieve, what I would like to achieve, and that is a better system, establish more credibility and to make sure that the students, in fact, do have affordability and access to higher education.

Mr. GAYDOS. Thank you very much.

Mr. Ford. Mr. Gunderson?

Mr. Gunderson. Thank you, Mr. Chairman. And, Senator, thank you for your testimony.

You just mentioned in your response to Mr. Gaydos an area that I wanted to delve into with you, and that is this whole area of increased administrative problems for the local colleges and universities. Apparently you have had some discussions in that area, et cetera. Do you have any suggestions as to how we can be more careful in our implementation of the Guaranteed Student Loan Program without really transferring the burdens to the university with the duplicative check?

Senator Quayle. I think there is a couple of responses to that. First, I think that the chairman's idea and suggestion that perhaps the multiple disbursement might help in this area I think is a credible one, and I think one that we ought to explore. And it is certainly a public policy point of view that I certainly support.

Second, I think what we are going to have to do, and I think Missouri, perhaps, would be a good example. What are the present impediments that presently exist within State laws in the administration of the State universities that would require this apparent or alleged problem with co-payment. Because I think that if we have an objective discussion on whether we should or should not have co-payment, I think that the final analysis is that we should have copayment; and therefore I think it is incumbent upon us to really look very diligently to see what kind of impediments are presently there that would not allow this public we would like to see implemented to go forward.

Mr. Gunderson. Generally, from a philosophical perspective if we put little or no burden or responsibility on the local financial institution or the lender, and we put little on the college, it seems our only avenue is to say it will be 100 percent guaranteed by the Federal guarantee agency. But in order to make sure we don't lose money we are going to implement all kinds of rules and regulations, additional paperwork, et cetera.

Would it make sense perhaps to transfer a small part of the responsibility for the loan to the lender and to the school and say it is up to you, rather than mandating copayment, et cetera? Does that have any appeal or not?

Senator Quayle. As a substitute to copayment?

Mr. Gunderson. Yes; I am just trying to look at this from a general philosophical perspective.

Senator Quayle. I think that there should be certainly cooperation with the lenders, with the institutions that are recipients of these moneys. But on the other hand, I am not so sure that you want to sit there and establish a program and then just say OK, we are going to throw the whole burden on you and sort of wash our hands of it. Because then the next step would be just to transfer it more, and I am wondering about the efficacy of a system like that, that originates here in Washington, what it would be.

Therefore, I would certainly be openminded to look at any kind of alterations that we might make. But I really do believe that the copayment aspect of this is one that we ought to pursue. If there is an alternative that would be suggested that would make more sense, then so be it. But I would look at your suggestion as perhaps an addition rather than a substitute for it.

Mr. **Gunderson**. Yes; I am not just focusing on this one aspect, but this is a much broader question to be considered with regard to the entire GSL program.

One final question. Your testimony suggests that you are rather pessimistic about a Senate timetable on reauthorization. Do you want to share with this subcommittee what you think the Senate's timetable is likely going to be?

Senator **Quayle**. Well, surprisingly, the House seems to be out ahead of us on this particular issue.

Mr. **Gunderson**. Cut him off, Mr. Chairman.

Senator **Quayle**. I could say that and get away with it because the Chair is engaged in conversation with Mr. Coleman and didn't hear that remark.

Mr. **Gunderson**. He is picking on the two of you. You need to listen.

Mr. **Ford**. We are cooking up amendments to this bill, Dan.

Senator **Quayle**. Oh, OK. Well, that is far more important than the schedule.

I don't think, given our situation it doesn't look terribly possible to get our higher education through this year. But there is no doubt about it that we are going to do it. I had to speculate, you are looking at legislation that probably will culminate next year.

Mr. **Gunderson**. I mean, are we talking early in 1986?

Senator **Quayle**. Well, I am really not in a pertinent position to say that that is what it is going to be. I have not conversed recently with Senator Stafford, who will pretty well set the agenda on that. The only thing I know is that he is, as you all know, definitely committed to doing the higher education bill. But I do believe, looking at the time schedule, knowing where the hearings stand on the Senate side, that it is going to be very difficult for us to do it in 1985, and therefore, early 1986. If I had to guess, this will be one of those things that we will all be gazing across the table about September of 1986. And just before the elections, that the pressure is out there with the clamoring to do something and not let it expire once again, that will probably be the time we will be doing it. Maybe in the extra week that we might have in October of 1986, and that would be the final act. Who knows?

Mr. **Gunderson**. Thanks, but no thanks.

Thank you, Mr. Chairman.

Senator **Quayle**. Well, the thing is it is going to be such a good piece of legislation that they are going to be clamoring for this legislation by the time we finish all of our diligent and thoughtful work.

Mr. **Ford**. Mr. Biaggi.

Mr. **Biaggi**. Thank you, Mr. Chairman.

Although I arrived a little late, I was here long enough to understand what the good Senator's comments were. To a large extent I am supportive of the legislation that he introduced with Congressman Coleman.

You recall full well when you were in this body, we enacted legislation that would finally put this whole mosaic in place. We were all well intended, but we saw the chaotic condition that developed.

It was necessary for the Department of Education to come down hard on some of the institutions. I remember they established the 25 percent level. Anyone having a default rate in excess of 25 percent would be taken out of the program. I supported that notwithstanding the fact that the city university was one of those that was guilty of that process.

What we have viewed over the years, though, is a narrowing of the default rate gap. There has been a reduction in the default rate, but clearly there are some abuses. The notion of people defaulting, some of them are just incapable of paying. Well, we understand that. But others out there that highlight the problem are those that just exploit the situation and purposely avoid paying by any device possible.

The case that comes to my mind is a husband and wife, who were doctors, who went to England, notwithstanding the fact that they owed a rather substantial sum, to avoid the payment. There are cases like that among the professionals, that exacerbates it and infuriates many people. So whatever we can do to tighten up that situation should be done.

The notion of multidisbursement as introduced is interesting. I think it certainly would reduce the amount of loss. Of course, we will be dealing with administrative problems in that one.

I want to commend you for your initiative and your presence here today.

Senator QUAYLE. Thank you.

Mr. FORD. Mr. Hayes.

Mr. HAYES. I just want to make a very brief statement, Mr. Chairman, and thank you for affording me the time. I want to thank the Senator for his testimony and support of 2150 which recognizes a need for the continuation of the program of student loans and doesn't throw the baby out with the bathwater as we proceed to try to reduce our Federal deficit. I think it is a plus that we have a joint effort, obviously, between you in the Senate and my colleague here from Missouri in the House of Representatives, and this should be a giant step on the road toward enactment.

I will carefully study and give serious consideration to support for the bill. I don't know, I haven't had a chance to really determine whether the bill itself proposes certain stringent guidelines toward eligibility for a loan, at least to the point where certain disadvantaged students who are seeking higher education will not be able to get a loan because of the stringent guidelines of getting a loan.

I don't think the bill specifically deals with that question. I think you are in the area of collections, which I happen to represent a district where it appears that in the direction we are going that many of the disadvantaged students who would have a desire to go to an institution of higher learning are going to be deprived of that privilege because of the economic circumstances in the families in which they are growing up. I am deeply concerned about that.

Thank you.

Senator QUAYLE. Thank you.

Mr. FORD. Mr. Petri.

Mr. **Petri**. I have no questions for our former colleague. I commend him well for his work and interest in this important area. Thank you for coming and testifying.

Mr. **Ford**. Mr. Owens.

Mr. **Owens**. No questions, Mr. Chairman.

Mr. **Ford**. Mr. McKernan.

Mr. **McKernan**. No questions.

Mr. **Ford**. Thank you very much. It is always a pleasure to have you come, and it is particularly pleasant when you come on such a mission of mercy, so to speak.

Senator **Quayle**. Thank you very much.

Mr. **Ford**. We are very pleased to have your estimate of the timetable we are working under. It has, in fact, been sort of the practice for so many years that the House leads off with higher education reauthorization and you fellows wait to see us get egg all over our face and then you write a nice bill to meet us in conference with. And we don't mind that at all, we are used to that. And we are looking forward to working with your committee because we have had a very good relationship.

It is one of the few areas, very frankly, that I work in where there is so much meeting of the minds involved in the decisions we make and so much actual consideration of the merits of conflicting proposals before they are resolved. If all conferences had as much substance in them as those when your committee is meeting this committee, it would be a lot more fun here. We do, indeed, mean it when we say that we enjoy the cooperation that we have had for years with that committee and look forward to working with you in the next 1½ years.

Thank you very much.

Senator **Quayle**. Thank you very much, Mr. Chairman, and I would just like to echo what you have said. We appreciate the fact that you are willing to go out and lead with your chin and take all of the punches that come your way. But you are absolutely right. I have been on that committee now for 4 years, and there is a great deal of harmony between the House and the Senate, Republicans and Democrats, on issues that are of great substance, but great importance to millions of people.

I thank you for your leadership and your cooperation. It is always a pleasure to do business with you.

Mr. **Ford**. Thank you.

Mr. **Ford**. The first panel is Bill Gainer of the General Accounting Office; Mr. Ronald Kimberling, Acting Assistant Secretary for Postsecondary Education; Mr. Richard Hastings, Director of the Debt Collection and Management Assistance Service.

Without objection, the prepared statements of each of the witnesses will be inserted in the record.

You gentlemen may proceed to summarize, comment on, or supplement your prepared statement in any way you find most comfortable.

We will start with Mr. Kimberling since his statement is on the top.

STATEMENTS OF WILLIAM J. GAINER, ASSOCIATE DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JOSEPH J. EGLIN, GROUP DIRECTOR; AND CHRIS CRISSMAN, EVALUATOR; RONALD KIMBERLING, ACTING ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION; AND RICHARD HASTINGS, DIRECTOR, DEBT COLLECTION AND MANAGEMENT ASSISTANCE SERVICE

Mr. **Kimberling**. Thank you, Mr. Chairman. Well, in the interest of time I will submit the statement and just briefly summarize it.

We are very pleased to be part of this hearing today and to express our support for H.R. 2150, the Student Loan Collection Improvements Act of 1985, introduced by Mr. Coleman. I would like to review quite briefly the Department's recent accomplishments in the area of collections.

In the last couple of years we have done a number of things which we feel have improved our collection efforts. These include full implementation of the authority which enables us to report debtors to national consumer credit bureaus, and we are now reporting between 75 and 100 calls a week from affected borrowers. We have been a team with the Department of Justice in pursuing litigation on default cases. As of May 17, we have sent 15,000 cases to Justice for litigation. We are expecting by the end of the fiscal year to have more than 16,000 referred.

Full implementation of private sector collection agency contracts has been achieved, and we are following up on those contracts with some even more interesting provisions. We have made a major improvement in our debt collection software. We have procedures in place to identify, locate, and offset the salary of Federal employees who have failed to repay student loans. We have already recovered more than $10 million from this effort.

And finally, a project of major import is the IRS offset. The Internal Revenue Service offset on income tax refunds for hundreds of thousands of individuals who have ignored their obligation to repay defaulted loans. This project will be operational early next year affecting tax year 1985.

These improvements have contributed to a total increase in recoveries from a level of $46 million in fiscal year 1981 up to $91 million in recoveries in fiscal year 1984. These are all-time high collection figures. They have been increased as a result of increased management priority that we have given to this effort. I am very pleased that we have established the Debt Collection and Management Assistance Service, an office that Mr. Hastings, my colleague on my right, your left, manages directly and which has as its full-time mission, debt collection.

But we are very pleased to testify in support of H.R. 2150 introduced by Mr. Coleman. We are very happy to see Senator Quayle's support in the Senate for similar measures. These measures include a couple of very important preventive measures, and we think that is a unique idea in this particular bill. That we are not only aiming at curing existing defaults, but we are aiming at some measures that will prevent defaults from ever recurring. I think that saves us all time and money and problems.

Chief among those is the copayment provision that was discussed earlier, but included in what I would call a preventive measure is a provision that specifies that a student may not receive financial aid if that student owes a refund on a grant or work-study or is in default of a loan made under the Department's student assistance programs at any institution. The current law simply provides that the student may not receive further aid if they are in default at the same school.

Other proposals would expand and modify credit bureau reporting requirements. They would establish what we think are better time limits for the maintenance of the reporting information with the credit bureaus. They would provide that the 6-year Federal statute of limitations would apply in filing suit if the State statute is shorter, and in some cases State statutes of limitations are as short as 3 years. We think this will further add to our inventory of tools in debt collection.

It would eliminate the requirement that an NDSL loan must be in default 2 years before an institution may assign collection rights to the Federal Government. We feel that is a very important provision to get an early jump on some of the defaults, and allow the Secretary to require assignment of paper in the case where the institutions have a consistently poor collections record.

Well, these and other provisions we feel will help add to our current inventory of tools. We feel they are geared at assisting in preventing and collecting defaults, and in no way are they harmful to the program in terms of providing access and opportunity in higher education.

We would be pleased to answer any questions you have on this topic or others.

[The prepared statement of C. Ronald Kimberling follows:]

PREPARED STATEMENT OF DR. C. RONALD KIMBERLING, DEPARTMENT OF EDUCATION

Mr. Chairman and Members of the Subcommittee:

We very much appreciate this opportunity to discuss with you the Department's loan collection activities in the student financial assistance programs, and particularly H.R. 2150, the Student Loan Collection Improvement Amendments of 1985, which was introduced by Mr. Coleman. Before addressing the specifics of the legislation, I would like to review briefly the Department's recent accomplishments in the area of collections.

We are proud of the progress we have made in improving our record of success in collecting on defaulted student loans. In the past two years we have implemented a number of major initiatives which have enhanced our performance. Among these have been:

— full implementation of the authority which enables us to report debtors to national consumer credit bureaus in order to adversely impact on their ability to obtain credit financing. Our offices are now reporting an average of 75 - 100 calls from affected borrowers a week as a result of this measure — a strong testament to its effectiveness;

— a coordinated effort teaming the Departments of Justice and Education in pursuing litigation on default cases; 15,000 cases were sent to Justice as of May 17, 1985; cases will continue to be referred on an ongoing basis;

-- full implementation of private sector collection agency contracts which will be expanded even further through follow-up contracts which will be awarded later this year;

-- major improvements in our debt collection system software which have enabled us to more effectively utilize the authorities provided by the Debt Collection Act of 1982;

-- full implementation of procedures to identify, locate and offset the salary of Federal employees who have failed to repay student loans. As a result of this effort, we have to date recovered in excess of $10 million; and

-- a project of major import which will enable the Internal Revenue Service to offset the income tax refunds of hundreds of thousands of individuals who have ignored their obligation to repay their defaulted student loans. We expect this project will be operational early next year.

These improvements have contributed to an increase in recoveries from a level of $46 million in FY 1981, to $91 million in FY 1984.

These all-time-high collection figures have been a direct result of the increased management priority that the Department has given to this effort. We have recently established the Debt Collection and Management Assistance Services Office within the Office of Postsecondary Education which reports directly to the Assistant Secretary for Postsecondary Education. This organization now focuses full attention on debt collection.

We are proud of these accomplishments, but we believe that even greater strides can be made through passage of H.R. 2150 as introduced by Mr. Coleman and supported by the Administration. This legislation includes important new measures which aim at preventing defaults from occurring, as well as provisions which add to our current inventory of collection tools for loans which have lapsed into default. The important preventive measures include:

- Modifying the procedure for disbursing funds. Under this proposal, loan checks would be co-payable to the student and the institution. Checks would be sent to the institution the student attends. We believe such a policy would provide better assurance that loans are used for educational purposes, and would reduce the potential for aid duplication, and the risk of "no show" defaults.

-- Modifying the student eligibility requirements to provide that a student may not receive financial aid if the student owes a refund on a grant or is in default on a loan made under the Department's student assistance programs at any institution. Currently, the law provides only that a student may not receive further aid at the same school; it is silent with regard to default at another school. Advanced technology has improved information exchange and makes it not only desirable but feasible to expand this coverage.

Other proposals in H. R. 2150 would:

-- Expand and modify our current requirements for exchanging information on student defaulters with credit bureaus to require that State guarantee agencies report default status information to consumer credit bureaus. While the Department now has this authority, it becomes critically important to require the State agencies to report defaulters since they now handle almost all of the guaranteed student loan activity.

-- Provide that the six-year Federal statute of limitations for filing suit would be applied to GSL and NDSL defaults and recoveries whenever an otherwise prevailing State statute provides a shorter time on the student's liability. Several States have very short (3 year) statutes of limitation. If the applicable State limit is longer, the State law would still apply. Since there are Federal funds involved, we believe the Federal statute of limitations on recovery actions should be the minimum standard.

— Allow the Secretary to require the assignment of defaulted National Direct Student loans to the Department in instances where institutions have a consistently poor collection record.

— Allow collection costs to be charged to the defaulter.

These and other provisions of the bill will substantially strengthen our collection effort. We are deeply appreciative of Mr. Coleman's support in introducing this measure, and would hope that the Subcommittee will endorse this measure.

I would be pleased to respond to any questions you may have.

Mr. FORD. Mr. Gainer.

Mr. GAINER. Mr. Chairman, I will also summarize our statement and provide the rest for the record. I would like to introduce my colleagues. On my left is Mr. J. Eglin, who heads all the education work done at the General Accounting Office. On my right is Chris Crissman, who is the project manager on the work we are going to talk about today.

The work I am going to discuss was done at the request of this subcommittee. Your staff asked us to look at the private collection agencies in comparison to the collections done in-house at Education on the Federal Insured Student Loans and the National Direct Student Loan Programs. We were asked to determine the level of effort made by the Department and its contractors, determine how often contractors settle for less than the full amount owed, and examine Education's litigation of defaulted loans.

Overall, we found the Department has increased its annual inhouse and contract collections from $52 million in fiscal year 1982 to $86 million in 1984 with fewer departmental staff available to carry out these duties. Although the contract collections have increased the Department's collections, they have been able to resolve only about 9 percent of assigned accounts because of a variety of problems. We also found that contractors settle for less than the full loan amount much more often than in-house collectors.

The Department is now in the process of awarding additional contracts with a variety of new provisions in an attempt to resolve these defaulted loans. Interestingly, perhaps half a million of these defaulted loans will have to be resolved without the option of litigation because the age of the accounts exceed the Federal statute of limitations.

I would like to just go into a little bit of background on the contract collections. The Department of Education currently has about 1 million FISL and NDSL defaulted loans with a value of about $1.4 billion. It collects these through three regional offices—Atlanta, Chicago, and San Francisco. Three collection contracts were awarded in November of 1981 and will expire in November of 1986. The contractors are paid on a commission basis.

As regards the Department's in-house collection efforts, since late in 1983 the Department has taken several steps to improve its collections, which the prior witnesses have already discussed. In addition, the Department started reporting debtors to the credit bureaus in 1984, and is also planning to begin offsetting loans against Federal tax refunds starting in January. It is also considering participating in an IRS program which allows debts written off by the Federal Government to be added to the gross income of the taxpayer debtors and then taxed by the IRS.

Prior to these changes, however, we noted a variety of apparent problems with Education's in-house collection efforts. For example, the Department had no record of any action being taken to collect on approximately 37 percent of all accounts, and of those remaining accounts which received some collection effort, roughly 30 percent were not worked within the first 12 months. I think that is significant because it is that first 12 months in which you have the highest probability of being able to collect.

Education made limited attempts to collect on loans other than sending computerized demand letters, and it did not prioritize loans to be worked based upon loan amount. The Department also transferred a large number of loans to private collectors without any evidence that they had been worked whatsoever.

A similar analysis performed in the following year showed little overall change. When we discussed this with the Department they explained these problems by noting that they had a large number of accounts per collector which forced them to rely on collections spurred mainly by computerized letters and pass on any labor intensive work to the contractors. I think that is probably a logical or reasonable explanation.

Nonetheless, the Department did increase its total collections with fewer staff. In fiscal year 1982 the Department collected $44 million in-house with 517 members on the staff. In fiscal year 1984 collections increased to $49 million with approximately 370 people, a substantial decrease in their in-house staff.

Although we believe the Department's recent changes, which I discussed earlier, are positive steps, it is really too early to tell whether the changes are going to result in improved collections.

As regards contractor collections, we found contractors' resolution of accounts were hampered by a variety of problems. For example, locating defaulters was a major problem with only 27 to 39 percent of defaulters being located in the three regional collection centers. Our field work showed, however, that in certain respects the contractors kept better records, acted more quickly, and attempted to collect accounts with greater effort than did the in-house collectors.

For example, contractors expended some effort on nearly all accounts that we sampled. For those accounts which received some effort, the initial contact or action was taken on all but 13 percent of accounts within the first 6 months after they were received. Contractors also initiated an average of six collections-related actions per account per year compared to two for the in-house collectors at Education.

The contractors' efforts did result in total collections of over $65 million during a 3-year period. Yet, according to the Department, these contractors were able to resolve only about 9 percent of all the loans they were assigned; and this occurred for a variety of reasons including the age of the accounts, the fact that Education had already made some attempt to collect them, and many addresses were not current.

Education hopes to award additional contracts after the present ones expire. These new contracts would contain more stringent performance requirements and provide incentives for high performance. They will also allow for periodic evaluation and cancellation by Education for nonperformance. Based on the changes in the provisions of those contracts we think they generally are positive changes.

Your request also asked us to look at partial writeoffs or compromises. Both Education and contract collectors can accept a partial payment in full satisfaction of the debt. We found the Department's policy on this has changed rather rapidly over time, and that contractors have obtained compromises eight times as often as in-house collectors. Education was unaware of that fact, and has since suggested to its in-house collectors that they compromise more often, or attempt to make compromises more often when it makes sense.

As regards the litigation problem, we found that a substantial portion of the Department's loan portfolio cannot be litigated because the time elapsed since borrowers defaulted on their loans exceeded the statute of limitations. We estimate that approximately 500,000 FISL and NDSL loan accounts, totaling $666 million, were likely too old to be litigated at this time.

To move loans to litigation before they are too old, the Department of Education in conjunction with Justice began a special project in October 1984 to expedite litigation. As of May 1985, Education had transferred about 15,000 cases to Justice. This is well behind the pace originally hoped for. Education has also included a provision in its new contract proposal to reimburse contractors for preparing accounts for referral to Justice, which should provide some help. And legislation was introduced in both Houses of the Congress which would allow private attorneys to litigate these cases. GAO supports the passage of that legislation, and we believe that if properly supervised the use of private counsel could be a useful and profitable complement to the collection tools currently available.

That concludes my statement, and we would be happy to answer any questions as well.

Mr. FORD. Thank you.

[The prepared statement of William J. Gainer follows:]

PREPARED STATEMENT OF WILLIAM J. GAINER, ASSOCIATE DIRECTOR, HUMAN RESOURCES DIVISION

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the General Accounting Office's review of the Department of Education's actions to collect defaulted student loans. Our evaluation was conducted pursuant to this Subcommittee's request that we study Education's use of private collection agencies to collect defaulted student loans under two loan programs--the Federal Insured Student Loan (FISL) and National Direct Student Loan (NDSL) programs. Through June 1984, these two programs have made an estimated 13.7 million loans totaling approximately $16.8 billion to assist eligible postsecondary students. The Subcommittee asked us to

--determine the level of effort made by the Department and its contractors to collect defaulted loans;

--determine how often contractors settled for less than the full amount owed; and

--examine Education's litigation of defaulted loans, including the involvement of the Department of Justice.

Our testimony today will focus on these matters for the two programs. We will also briefly discuss our related collections work on the Guaranteed Student Loan program, which is just beginning.

Overall, we found that the Department has increased its annual in-house and contract collections from $52 million in fiscal year 1982 to $86 million in fiscal year 1984 with fewer departmental staff available to carry out and oversee the collection function. In-house staffing fell from 517 to 373 during this period. Although the contract collectors have increased the Department's collections, they have been able to resolve (bring accounts into repayment or determine their uncollectability) only about 9 percent of assigned accounts because of a variety of problems. For example, nearly 70 percent of all defaulters could not be located. The Department is now in the process of awarding additional contracts with a variety of new provisions in an attempt to resolve those defaulted accounts still outstanding. A substantial portion (estimated at half a million) of this defaulted loan portfolio will have to be resolved without the option of litigation by the Department of Justice. The age of the accounts exceeded the federal statute of limitations without needed action by the Department of Education.

BACKGROUND

The FISL and NDSL programs are two of the four student loan programs administered by the Department's Office of Student Financial Assistance. These two student aid programs provide low-cost loans to students pursuing a postsecondary education.

Under the FISL program, participating lending institutions make loans to student borrowers which are directly insured by the federal government. Borrowers repay the loans, including interest, directly to the lenders.

The NDSL program provides for Education to assist postsecondary institutions establish revolving funds to make loans. The federal government and the participating schools make yearly contributions to continue to make funds available to students. The schools collect loan repayments (principal and interest) and deposit them in the revolving fund so the money can be reloaned to other students.

As part of its effort in overseeing the FISL and NDSL programs, the Department of Education assumes responsibility for collecting these loans whenever a student defaults. The Department accepts defaulted loans after the schools and lending institutions which made the loans have followed certain procedures in attempting collection. As of March 30, 1985, the Department was responsible for collecting over 1 million FISL and NDSL defaulted loan accounts with a value (including principal and interest) of approximately $1.4 billion.

In 1981, Education consolidated its loan collection activities from 10 regional offices to 3 (Atlanta, Chicago, and San Francisco) and awarded contracts to private collection agencies to supplement the 3 regional offices' defaulted loan collection activities. The Department believed that the collection agencies' efforts would be at least as cost effective as its own efforts. The three collection contracts awarded in November 1981 were for 3 years, although they were subsequently modified and extended until November 1986. The GC Services Corporation was awarded the contracts to operate in the Atlanta and Chicago regions, and the Payco American Corporation was awarded the San Francisco contract.

These contractors are to systematically collect the amounts due or determine the uncollectability of the accounts they receive. They are to do so in accordance with provisions in their contracts. The contracts are based on standards developed by the Department which outline the minimum collection activities to be performed. The standards also specify the documentation needed for various categories of accounts which are determined to be uncollectable due to the borrowers' bankruptcy, disability, or death. The contractors are paid a commission for the funds they collect.

DEPARTMENT OF EDUCATION COLLECTION EFFORTS

Since late in 1983 the Department has taken several steps to improve collections.

--It created an independent unit called the the Debt Collection and Management Assistance Service.

--It implemented an automated collection system to further facilitate its collection efforts.

--It established a write-off policy for loans which it deemed uncollectable, thereby allowing it to focus on those accounts which have the best potential for collection.

In addition, the Department started reporting debtors to credit bureaus in October 1984. According to Education collection officials, the Department is also (1) planning to begin offsetting loan amounts against the federal tax refunds of student loan defaulters in January 1986 and (2) considering participating in an IRS program in which debts written off by federal agencies, such as Education, can be added to the gross income of a taxpayer-debtor and taxed accordingly.

Prior to the recent changes which have been made in Education's collection system, we noted a variety of apparent problems with its in-house collection efforts. Based on our field work, we found that in fiscal year 1982 the Department

--had no record of any action being taken to collect on approximately 37 percent of all accounts, and of those accounts which received some collection effort roughly 30 percent were not worked within the first twelve months Education had the loan;

--made limited attempts to collect on loans other than sending computerized demand letters (an average of only three additional actions per year per account such as a phone call or an additional letter);

--did not prioritize loans to be worked based upon loan amount; and

- --transferred a large number of loans to private collectors without any evidence that they had been worked by the Department (perhaps as many as 37 percent of all loans transferred).

Similar analysis performed in 1983 showed little overall change. The Department explained this by noting that the very large number of accounts per collector forced them to rely primarily on collections spurred by the computerized letters, while passing any labor intensive work on to the contractors.

Nonetheless, the Department did increase its total collections with fewer staff. For example, in fiscal year 1982, the Department collected about $44 million with 517 staffmembers. In fiscal year 1984 collections increased to $49 million while the number of staff decreased to 373. As of April 30, 1985, the Department had collected about $24 million in fiscal year 1985.

Although we believe the Department's recent changes are positive steps in improving the collection process, it is too early to tell whether they will result in improved collections.

CONTRACTORS' COLLECTION EFFORTS

Once Education Department collectors have held the delinquent account for at least 120 days and been unsuccessful in getting borrowers to repay their loans, loans can be turned over to a private collection agency.

Contractors' resolution of accounts was hampered by a variety of problems. For example, based on our review of a sample of accounts Education assigned the contractors, we found that locating defaulters was a major problem. In Atlanta and

Chicago, GC Services' collectors could locate only about 27 percent of the defaulters, while in San Francisco, Payco made contact with only 39 percent of the defaulters. In addition, the method of compensation which resulted in payment when a collection was obtained made contractors reluctant to expend funds to close accounts without a collection, thereby resulting in a large number of unresolved loans which the Department will eventually have to recall.

Our field work showed, however, that in certain respects the contractors kept better records, acted more quickly to attempt collection and made greater efforts to collect. For example:

--the contractors expended some effort on nearly all accounts we sampled,

--for those accounts which received some effort, the initial contact or action was taken on all but 7 percent of accounts within the first six months after receipt,

--initiated an average of 6 collection-related actions per account per year.

The contractors' efforts resulted in total collections of over $65 million (net to Education after commissions of $46 million) during the 3-year period ending September 30, 1984. Yet according to the Department, as of April 30, 1985, the contractors had resolved and returned only about 90,000, of the over 745,000 defaulted loans they were assigned. Of these 90,000, Education actually requested the return of 26,000 accounts, meaning that the contractors were able to resolve only about 9 percent of the loans they were assigned. This occurred for a variety of reasons including the age of the accounts, the fact that Education had already made some effort on the majority of the accounts, and that many addresses were not current.

Education hopes to award additional contracts to collect those FISL and NDSL accounts still outstanding, as well as any new accounts which Education may assign after attempting to make collections. The proposed new contracts contain more stringent performance requirements than the first group of contracts, are designed to assure that collectors try to resolve all accounts assigned, and provide incentives for high performance. They also allow for periodic evaluation and cancellation by Education for nonperformance by the contractor. (See attachment I.)

Education officials attribute their revision of contract provisions to experience gained under the current contracts.

REPAYMENT OF LOANS WITH PARTIAL WRITE-OFF (COMPROMISES)

Both Education and contract collectors can, with the Department's approval, accept a partial payment in full satisfaction of a debt. We found that (1) the Department's policy regarding loan compromises has changed several times since it awarded the current collection contracts, and (2) the contractors obtain a compromise more frequently than the Department. Consequently, contractors who have an economic incentive to compromise have done so on more than eight times as many accounts as Education (3,730 to 459) during the period October 1, 1982, through March 19, 1985. For the $7.7 million of accounts the contractors made compromised settlements on, they collected $5.7 million (74 percent), thereby forgiving $2 million. Education staff, meanwhile, collected $824,000 (82 percent) on $1,002,000 of accounts, thereby forgiving $178,000. The average amount forgiven per loan was $388 for Department compromises and $545 for contractor compromises.

The Department was unaware of these differences in the number of compromises made until we conducted our analysis. It has since instructed its departmental collection staff to attempt to make compromises more often as permitted by federal standards. Education officials told us that their regional offices were being somewhat "conservative" in compromising defaulted loans, although they had the same opportunity to compromise accounts as did the contractors.

LIMITED USE OF LITIGATION TO COLLECT DEFAULTED LOANS

The Department of Justice is the agency charged with bringing civil actions against those who owe debts to the federal government. The federal statute of limitations, as amended (28 U.S.C. 2415), provides for a 6-year period in which legal collection action may be brought by the U.S. government to recover its debts. We found that a substantial portion of the Department of Education's defaulted student loan portfolio cannot be litigated because the time elapsed since borrowers defaulted on their loans exceeded the federal statute of limitations. We estimate that as of March 1985, approximately 503,000 FISL and NDSL defaulted accounts, totaling $666 million, were likely old enough to exceed the limitation and borrowers had never made payments on their loans.

The Departments of Education and Justice began a special project in October 1984 to expedite litigating defaulted student loans. At the time, the two departments agreed, at the Office of Management and Budget's urging, that Education should refer 50,000 cases to Justice by September 30, 1985. As of March 15, 1985, Education had transferred 12,128 cases to Justice. If Education continued to transfer cases to Justice at this rate, it would be below that needed to reach 50,000 cases by September 30. Education has since readjusted its estimate and hopes to refer approximately 16,200 cases by that date. The Department believes the original goal of 50,000 was very optimistic.

Proposed legislation to assist Justice's litigation efforts

To assist Justice in its efforts to litigate defaulted student loans, as well as claims referred by other federal agencies, legislation was introduced in both Houses of the Congress to address the debt litigation problem. This proposed legislation would allow private attorneys, under contract with the U.S. Attorney General, to litigate debts owed to the federal government. In the Senate, S. 209 was introduced on January 21, 1985, and contains the same language used in S. 1668 which was passed by the Senate in 1984 (the 98th Congress). In the House of Representatives, a similar bill, H.R. 979, was introduced on February 6, 1985.

GAO supports the passage of this legislation. We believe that if properly supervised, the use of private counsel paid on a contingency basis could be a useful and profitable complement to the collection tools currently available to the government.

GUARANTEED STUDENT LOAN COLLECTIONS

We recently initiated a study of the collection of defaulted loans by guarantee agencies. Our work is still in the preliminary stages; thus, we have not yet reached any conclusions. Our approach will be to examine the entire area of guarantee agency collections by determining (1) how the agencies go about collecting these loans, (2) how procedures vary among the agencies and from those utilized by Education, and (3) how successful these procedures have been. We will also look at practices such as the use of collection agencies, credit bureaus, and litigation, and attempt to determine whether the agencies are adequately protecting the federal government's financial interests.

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Mr. Chairman, this concludes our statement. We will be happy to answer any questions at this time.

COMPARISON OF SELECTED ASPECTS OF CURRENT CONTRACTS AND THE PROPOSED CONTRACTS

	Current contracts	Proposed new contracts
Number of contracts	Awarded one contract for each region that performs collections	Will award as many contracts as necessary to effectively address Education's concerns and goals (estimate two contracts per region)
Compensation	Paid only commission on those accounts with collections	Will pay collection commission, fee for administrative resolution of each account, fee for preparation of litigation cases, and an incentive fee if contractor collections exceed pre-set goals
Collection period	Has 15 months to resolve accounts	Will have 9 months to resolve accounts
Incentives	Additional accounts transferred basically without regard to performance	Better performers will get more accounts
Evaluation	No scheduled evaluation	Specified evaluation schedule
Cancellation	No effective penalty for nonperformance	Contract will be reviewed at end of first year and terminated if necessary

Mr. **Ford**. If you gentlemen will just stand at ease for a few minutes, we will be back as quickly as possible.

[Recess.]

Mr. **Ford**. Mr. Gainer had just finished his statement when we broke, so we will open it now to questions of the witnesses assisted by their escorts.

First, I have questions for Mr. Kimberling. I don't know whether it is fair to ask you to speculate on this, but do you have any idea when we can expect the recommendations of the Department on reauthorization?

Mr. **Kimberling**. I knew you were going to ask that, Mr. Chairman.

Mr. **Ford**. If it is an embarrassment to you, don't answer it. [Laughter.]

Mr. **Kimberling**. Well, I think by our presence here today you can see that we have closed on a number of issues, and we are certainly in support of the issues under discussion this morning. We have made some other recommendations in our proposed Higher Education Amendments of 1985 which we certainly think will be a part of our total package of recommendations. For example, our support of multiple disbursement under the Guaranteed Student Loan program, some of the proposed changes in eligibility under title III.

But I am not at this point prepared to say when we will have a package of recommendations in legislative language. I certainly think it will be before that October 1986 date that we heard about earlier this morning.

Mr. **Ford**. Well, this too may be a problem, but we are a little bit concerned by not knowing what is happening over there with regard to who is working and who we can communicate with to work together on this. You are in the position of the Acting Assistant Secretary?

Mr. **Kimberling**. Yes, that is correct, Mr. Chairman.

Mr. **Ford**. And the position of the Deputy Assistant Secretary for Postsecondary Education for Student Financial Assistance is still vacant?

Mr. **Kimberling**. Yes, that is correct.

Mr. **Ford**. Do you have any idea when the people are going to be in place so that we know who to blame, if nothing else, over there?

Mr. **Kimberling**. Well, as of this moment you have got me to blame. I have been the Deputy Assistant Secretary for what we call everything but student aid for the past 2½ years, and I have become familiar with student aid issues, as you probably know, because the student aid deputy position has been vacant for most of that period of time.

I hope that you can appreciate it is a very difficult position to fill, and we are going to look for the person with the right qualifications. We need both a person who has academic skills and management and understanding of complex finance and computers. So, we are going to continue that search until we find just the right person that we think can do the job properly.

Mr. **Ford**. Thank you. When the Secretary was up here he responded to questions because of what the President had said, and he had said beforehand and repeated on the record here the assertion that there are 13,000 students with families having an income in excess of $100,000 receiving Federal aid. At that time we asked him if he could give us some basis for that assertion. I have to tell you in all fairness that in the 10 hearings preceding today we have been searching for those people. And in all honesty, we found one. Just one.

One of the associations that been cooperating in trying to find them came up with one in New England with four students in school; family income of $125,000. Two of the four students in school are in medical school. The total tuition, if I can recall the figures correctly, is about $64,000, cost of education for the four of them. One of the younger students became eligible for a $1,000 Guaranteed Student Loan. So it would appear that they are borrowing $1,000 of the $64,000 this year. And virtually you have to have almost all of those characteristics in place, very expensive schools to begin with, to have that happen.

Because there has been so much attention on this the committee is very much concerned that, if there is some basis in the Department for this, that you give us an idea of where to find them so we can find out how this has come to pass. But if there isn't, we ought to clear the air with that also because it is getting in the way, frankly. Too many people bring it up as a fact, because when the Secretary states something and the President states something, particularly when the President says it, that is it. And if they were informed imperfectly or in some other way, hopefully whoever did that is no longer around. We don't care who is to blame, but we would really like to have something on the record to show what the basis of this is.

I noticed the reference in the testimony this morning to the 15,000 cases that have been sent to the Department of Justice for loan collections. Unfortunately, and I think this was inadvertent on the part of the staff who accompanied the Secretary, they left on the record the statement that 15,000 cases had been sent to the Department of Justice for prosecution of fraud and abuse. We later, I think, got it partially cleared up by saying, well, the 15,000 was really the cases that were sent over for collection.

Although we asked you here this morning to talk about the default rate, this bears on the default rate. How many cases have been forwarded to the Justice Department for prosecution, for fraud, particularly under the Guaranteed Student Loan Program?

Mr. **Kimberling**. I understand the tenor of your question, Mr. Chairman, and I think we can get that figure and furnish it for the record.

Mr. **Ford**. You are looking at the person who wrote the language into the law that makes it a felony to get more than $200 that way, and a misdemeanor if it is less than $200. We did that because we wanted to make clear that we didn't want to tolerate fraud. The impression was left that there is fraud and, indeed, people are being prosecuted for it.

Can you give me in round numbers, is it several hundred, several thousand, several dozen?

Mr. **Kimberling**. I can't give you a round number off the top of my head. We will go back, with your permission, and talk with our inspector general's office. I do read the inspector general's monthly and semiannual reports, and I am aware of the fact that in just about every one of them there is mention made of fraud cases being prosecuted.

Mr. Ford. Let me suggest to you a procedure in order to protect the validity of those prosecutions. We would not want you to give us names and other ways of identifying the individuals because they have the right not to have us discussing their case in the records of these proceedings. But if you could give us examples and call them A, B, C, or whatever, of the type of things that have been found——

Mr. Kimberling. Absolutely.

Mr. Ford [continuing]. It would be very helpful to us in going through this process and finding out where the loopholes are that have to be plugged up. Could we look forward to having something like that?

Mr. Kimberling. Certainly, Mr. Chairman.

Mr. Ford. And I would suggest you check with the Justice Department to make sure that you are not giving us any information that would prejudice their case.

Mr. Kimberling. Will do.

Mr. Ford. Mr. Coleman.

Mr. Coleman. Mr. Chairman, let me, while Mr. Kimberling still has the microphone, ask him if it is correct that since the Department has started beefing up its collection activities that $405 million has been collected since the program's inception with about a fourth of that being collected just in fiscal year 1984?

Mr. Kimberling. Yes, that is correct information.

Mr. Coleman. That shows that at least the Department has focused on this area and is doing something about it, and shouldn't necessarily be criticized for letting this problem go. I congratulate you for that.

We now have provisions within the IRS to allow withholding an individual's tax refund, beginning in 1987 I believe, if they are in default.

Mr. Kimberling. Yes.

Mr. Coleman. Is that true?

Mr. Kimberling. Yes, sir.

Mr. Coleman. How is it that you are preparing to administer this? Are you having any input into this, or is it all done through the IRS?

Mr. Kimberling. No. Mr. Hastings and his staff are holding current discussions frequently with the IRS on the implementation of this procedure. This will take effect with the filing of tax returns in 1986 covering taxable year 1985. So it is really this current tax year in terms of earnings that the provision covers and the filing of income tax forms beginning with next spring.

Perhaps Mr. Hastings would like to speak specifically to what the discussions have been as to how we are going to implement this procedure. But we do envision it being quite successful.

I would note that our best estimate is that about four out of five individuals who are in default on their loans who would be covered by this provision will be receiving income tax refunds, or would otherwise receive income tax refunds. And under this provision, instead of receiving an income tax refund they will instead be getting a letter, a nice friendly little letter from the IRS saying your refund has been rechanneled to the Department of Education because you are in default on a student loan.

We think with four out of five individuals coming under a refund that this will be a very good collection tool that we can exercise.

Mr. COLEMAN. Of course that is under the present Tax Code. Have you put into the computer what happens under the President's new Tax Code?

Mr. KIMBERLING. That is why we want to get this provision underway while the marginal tax brackets are still pretty high.

Mr. HASTINGS. The Deficit Reduction Act of 1984 in which that provision was included gave us the use of the IRS as a tool for 2 years, so I am not sure it will be a problem by the time legislation is enacted in that regard.

Mr. COLEMAN. Say that again.

Mr. HASTINGS. It is only effective for tax years 1985 and 1986.

Mr. COLEMAN. And it would have to be reauthorized by the Congress?

Mr. HASTINGS. That is my understanding; yes, sir.

Mr. FORD. Excuse me. That is an act that didn't just apply to you, but it applies to all of the other agencies of the Federal Government.

Mr. HASTINGS. Yes, sir; that is correct.

Mr. FORD. So that any agency of the Federal Government that thinks there is somebody who owes them money can ask the IRS to offset a refund.

Mr. HASTINGS. Right; and I understand that there will be five Federal agencies, which we are one, who will actually be using that authority for this tax year. We have been working hand in glove with IRS all through this spring. We intend to send our entire FISL and NDSL portfolio which is not in repayment status with remaining balances down to $25 to the IRS. We actually are going to begin sending out notices to those debtors this summer telling them we intend to do so. We expect as a result of that we will get a large chunk of money coming in voluntarily at that point because people have a tendency to spend their refunds before they get them and they would like to have a little control over their life.

We have also, and more importantly, in the big picture have been working closely with NJOF and the individual State guarantee agencies to allow them to use this process as well. We have pretty much solved all the operational problems associated with that. There are still some concerns by some individual agencies about the fact that they have to assign this paper to the United States in order to avail themselves of that process. But that is the way the law is written and we can't do anything about that.

We have been trying to encourage agencies to look at the economics in their own situation. When you have got an 80-percent probability that you are going to be able to get something out of everyone of those default cases, and the average refund I am told is about $750, if you didn't get anything in the last year, and that is what we are suggesting that agencies send us, only paper on which there has been no payment in a year, we think the economics are on the side of everybody using that to the maximum extent possible.

Mr. **Coleman**. What do you anticipate recouping, in dollar figures, through either voluntary payments once they have got the idea of what is happening or through an offset by the IRS? Do you have any estimates on this?

Mr. **Hastings**. I believe our estimate to OMB has been about $50 million for fiscal year 1986, and personally I think we may have been a little conservative in that regard. I think it is going to be extremely successful, based on similar State experiences where States have been able to use their State revenue departments in the same fashion.

Mr. **Coleman**. Do you know if the IRS is planning on having any statement in the book of preparation assistance that goes out to taxpayers to highlight this offset——

Mr. **Hastings**. I don't believe that I have heard that, Mr. Coleman. They will, however, in January send a notice to every taxpayer whom we have referred to them saying that they now have the account and that they intend to offset the refund.

Mr. **Coleman**. Would that be an address which you supply or which the IRS will match with a Social Security number to determine the latest good address?

Mr. **Hastings**. They will be using taxpayer filing addresses.

Mr. **Coleman**. Mr. Kimberling, we have heard a lot of discussion about income sensitive repayment plans for students who have large debt burdens. What is the Department's position on this? Do you have any specific suggestions for an income sensitive repayment schedule?

Mr. **Kimberling**. Well, we followed with great interest the hearings on this subject and the Petri-Jeffords bill the other day. As you may recall, the Secretary has made several statements in which he has indicated support for reviving discussion on the tuition assistance plan that was put forward I guess 2 or 3 years ago by John Silver of Boston University. And there are some similar provisions, as I understand this bill that has been introduced, including payment through the IRS and some income sensitivity. So given that I think we will be studying this concept very carefully.

The Secretary certainly has indicated his personal interest in some kind of a tuition assistance plan, loan financing, and the involvement of the IRS during the years in which a student has become employed and is now earning money. While we can't speak to the specifics of the bill as yet written, we think it is one of those good ideas that deserves highlighting.

Mr. **Coleman**. Thank you.

A question for the gentleman from the General Accounting Office. I wonder if you could clarify a point in your testimony. Are you trying to establish a "definition" of default rate which applies to GSL's or NDSL's? As accountants and people who are sticklers for detail, do you feel that we ought to decide on one definition and do it, or what?

Mr. **Gainer**. We haven't looked at that specifically. I think as a principle, though, it is nice to have the same definition year after year after year, so that you can tell what is going on. I think perhaps in some of the future work we do we are going to look at the reporting statistics on defaults in a variety of these loan programs and try and get sort of an equal comparison of the various programs, so that we have some historical perspective as to what is happening.

Mr. **Coleman**. In August of 1984, the GAO produced a report regarding proprietary schools and the Pell Grant Program. I was wondering if either of you gentlemen could tell me if there has been a similar study of the GSL Program? If not, what are your thoughts regarding the concerns that were expressed by the GAO in this report regarding the admission requirements, academic progress standards, and some of the problems that were detailed in the report on Pell grants? Are any of these applicable to a discussion of GSL's?

Mr. **Gainer**. We have, in fact, not done anything on GSL vis-a-vis proprietary schools. But I think you could probably infer that since those proprietary schools get both Pell and GSL funds, and that is about all they get—and they probably get more GSL funds going to the students at proprietary schools than they do Pell grants—that you would find the same problems. For example, if eligibility was a problem under Pell grants for proprietary schools, you would expect the same kind of problems with GSL. Verification of whether students were in school or not was a problem, it will still be a problem. As far as accreditation, that was based with the schools, not with the grants. We sample schools, not necessarily grants, and as far as accreditation, that is a school-based problem. It is still going to be there whether you are talking GSL or Pell grants.

So I think you would expect to find the same kind of things if you went in and looked at a GSL grant.

Mr. **Coleman**. Mr. Kimberling, you are familiar with the GAO 1984 report?

Mr. **Kimberling**. Yes, I am, Mr. Coleman.

Mr. **Coleman**. You heard the gentleman's response. Would you have anything to add to that, and have you done any studies or made any recommendations along these lines?

Mr. **Kimberling**. Well, I would just add that there are a couple of provisions of your bill that I think will help in the proprietary sector, perhaps, even more than in the traditional college and university sector, and I would specifically address those two preventive measures. I think the copayment option would have very salutory effects in the proprietary sector, and perhaps even better is the broadening of student eligibility requirements so that a student, whether in a traditional college or university or in a proprietary school, could not jump from one school to another being in default on a loan at school A and then re-enroll in school B and get a second loan. I think those two preventive measures will go a long way toward addressing some of the problems we have seen.

I guess I would add that accreditation and institutional eligibility is a big issue. I, personally, am hopeful that this committee will address issues related to institutional eligibility and accreditation during the process of reauthorization.

We are beginning to see a pattern, that we are addressing through our National Advisory Board, where there is beginning to be some competition between accrediting agencies that have traditionally accredited proprietary or occupational/vocational institutions and accrediting agencies that have traditionally accredited on a regional basis colleges and universities. That competition I think needs some self-restraint in the voluntary accreditation community; and without that kind of restraint—and I am basically addressing this to the regional associations—we have seen a couple of instances where they are picking up schools that have been denied accreditation by the proprietary accrediting associations.

My perception is that the proprietary associations, by and large, are quite aware of the need for tight standards and self-restraint, but we can't allow a competitive situation to work us into the lowest common denominator where, if you lose accreditation from AICS, you are going to be picked up by the Southern Association. We are addressing that kind of a problem, which is just beginning to emerge, through our National Advisory Board. I think it is an issue that needs to be studied in the context of the GAO report.

Mr. Coleman. Mr. Kimberling, the fact that we have about one-half of all the GSL's ever made coming into repayment in the next couple of years, does that tell you anything? Have you geared up or is the Department doing anything differently to anticipate this?

Mr. Kimberling. Well, Mr. Coleman, I think that is why we are very pleased that the Congress and this committee is now considering this package of amendments, and I think it speaks to the urgency of passage of these amendments not only in this session of Congress, but in the first session if at all possible.

You are absolutely correct that approximately half of all GSL's that have ever been made will be coming into repayment or be in repayment status within the next couple of years. And that means that even if the default rate is kept current that the need for appropriations to cover claims will be that much greater.

Looking at the charts, we see that maturation of paper is a lagging indicator that follows in direct proportion to loan origination, and we see that curve in loan origination going up very steeply in the past few years. The curve for maturing paper is also going to go up very steeply. That poses a gigantic problem for all of us. I would recognize that we need to not give the impression to the public that all students are going to be defaulters, but at the same time we have to look at the cost to the public.

I think Senator Quayle mentioned a cost of $800 million this year. If we look at that $800 million figure, and we had an ideal universe where we didn't have these defaults coming in, there wouldn't be any need for the Congress to have passed a supplemental bill for the GSL Program this year. Look at it another way. You could fund more than all the other programs besides student aid and the Higher Education Act just from the amount of money we are paying out on default claims. So with the deficit situation being what it is, as those loans come into repayment status, if we don't continue to redouble our efforts on defaults, we are going to have even more of a problem in terms of dollars.

Mr. Coleman. Thank you very much.

Mr. Ford. Mr. Biaggi.

Mr. Biaggi. No questions, Mr. Chairman.

Mr. Ford. Mr. Gunderson.

Mr. Gunderson. Thank you, Mr. Chairman.

I also have a couple of questions, really, for the Department. Either one of you who would like to respond you are more than welcome to do so.

Let us look at the legislation that is before us. Section 104 of that particular legislation would allow the borrower in default to become liable for certain collection costs borne right now by the Department in trying to collect his or her defaulted loan. Can you begin by giving us some idea of what those collection costs are on an annual basis?

Mr. **Kimberling**. I think Mr. Hastings can summarize the collection costs. I would point out that this provision has a co-provision, as I understand it, whereby borrowers would have to be informed of the potential for those charges. Being informed as part of a consumer information law before they borrow. So this provision would be information presented up front to new student borrowers.

Mr. **Hastings**. First of all, the Debt Collection Act of 1982 really gave this authority to all governmental agencies. Then it goes on to say except where there is a contract, and, of course, all of these loans are in the form of a contract. We have been unsuccessful in getting the Department of Justice to interpret the law to the point of view that there has been a breach of the contract by default. So this really is to some extent a clarifying amendment.

We clearly would not propose to pass on all of our collection costs I don't believe. But the incremental costs I think are certainly legitimate. I don't have a figure that I can give you off the top of my head, although I think we can provide one for the record on that.

But our collection agencies, for instance, they work on a contingency basis. The current contracts range from 24½ percent to 40 percent of the amount recovered. I think clearly we would propose to pass those costs on to the debtor. It costs us about $200 to prepare a case to go to the Department of Justice. If there is a judgment and if the judgment is enforced, the Department of Justice does, up front in the first payment, take certain fees out of that payment to cover their litigation expense, but the student loan insurance fund or appropriations do not benefit from that at all.

I think those are the kind of costs we would propose. The incremental costs that are related solely to the fact that this person decided to default rather than honor their obligation.

Mr. **Gunderson**. Do you have any idea as to whether or not some sort of a cap or a percentage should be placed on the amount anyone who borrows and finds himself in this situation might be liable for?

Mr. **Hastings**. When we had the interagency discussion with OMB and GAO after the Debt Collection Act of 1982 was passed, I think there was agreement on the part of senior officials at OMB that there probably ought to be some sort of a reasonable cap on that. I don't think the Coleman bill specifically addresses that, but I, personally, think that is reasonable.

Mr. **Gunderson**. Would that be imposed through regulation, or are you talking about the need for legislation for the cap?

Mr. **Hastings**. I don't know. If the Congress feels that as a matter of policy there ought to be a cap, I think it ought to be in legislation.

Mr. **Gunderson**. I am not against the concept of requiring some obligation for the student in these cases, however, I am a little hesitant with the amount of information we have thus far to do what appears to be a sort of back-door approach to find a pool of funding for Department operations. I, personally, would like a lot more information on, No. 1, the problem; No. 2, the cost; No. 3, the anticipated charges, et cetera, before I would feel comfortable going ahead with this particular section.

Mr. **Hastings**. We can certainly provide you with an estimate of what we think the current cost would be. I don't believe that there is a suggestion that this would go against departmental operations. I think the money would all go back to the Treasury.

Mr. **Gunderson**. Well, you know, I feel you are the good guys. But I have been here long enough to know that OMB will find as many ways as possible to raise money, and I wouldn't be a bit surprised if 2 or 3 years down the road we were holding oversight hearings on this section because of problems that had occurred. So I would like to try to prevent that if I might.

Mr. **Kimberling**. Mr. Gunderson, certainly we would not want to charge any costs other than those that we could demonstrate actually occurred and were directly related to collections. And if this committee is interested in having the Department comment on a proposed cap, we will try to do that.

Mr. **Gunderson**. Well, I, personally, would appreciate it if you would respond at least to me, if not to the subcommittee, on this whole issue.

Mr. **Kimberling**. Will do.

Mr. **Gunderson**. I would like to also discuss section 107 of the legislation, which allows the Department to impose civil penalties of up to $25,000 on lenders and guarantee agencies found in noncompliance with the act. Can you give us some idea of the kind of violations that you see at the present time or would see in the future which would warrant such action?

Mr. **Kimberling**. Well, obviously, if any of the major provisions of this bill were to be violated. For example, if we found that a lender willfully and routinely was not making checks copayable to the student and the institution, a basic provision of the law. If we found, for example, that there was not some kind of systematic effort to identify a student's previous student aid history and whether or not the student was in default of a loan made from another institution. Anything that would be an egregious violation of the provisions of this bill.

Mr. **Hastings**. This provision really parallels existing law with respect to institutions of higher education. The Secretary currently has the authority to limit, suspend, terminate, or fine, in an amount up to $25,000 per occurrence, institutions which violate the law or applicable regulations concerning title IV. And so to that extent it is merely an extension to guarantee agencies and lenders.

Mr. **Gunderson**. How often is it used at the present time?

Mr. **Hastings**. The fining authority, we have detailed information on that. I also happen to be the Secretary's designated official for the execution of that. I think in small amounts; I suspect the average is certainly less than $5,000 where we have actually applied it. We have probably done it in a couple dozen situations.

With respect to guarantee agencies, the Secretary is in currently the position of having to use an A-bomb to kill a fly, essentially. Because his only real remedy with respect to an agency is to yank the contract, the agreement with the agency, and put them out of business. I think that there ought to be some intermediate ground which would allow appropriate remedies without having to go to that extent where there has been a lack of diligence on the part of the agency.

Mr. **Gunderson**. Would you assume that identifying the violations, conducting the investigations, and applying such penalties, et cetera, would be determined through the regulatory process?

Mr. **Hastings**. The existing process is that this is a hearing on the record before a third party, who is always an administrative law judge, who makes the initial recommendation and determination. The Secretary of Education, personally, is the final deciding authority on that.

Mr. **Kimberling**. I would like to add, the provisions of this particular bill, do establish in the basic law as proposed under section 107 some of the due process procedures, and they include a provision that the penalty has to consider the size of an agency and it has to be commensurate with the gravity of the violation or misrepresentation. There is spelled out in this bill as written due process rights, hearing rights, appeal rights, et cetera, before final action before the Attorney General.

So many of the steps that are taken in the current process with respect to fining or penalizing institutions that are in our current regulations are actually sketched out here in H.R. 2150, and we would certainly follow that established practice and follow the law.

Mr. **Gunderson**. Clarify for me, if you can, the difference between present law and what is proposed in H.R. 2150.

Mr. **Kimberling**. Present law basically gives the Secretary civil fining authority for up to $25,000 applied against institutional violations of provisions of title IV statute or regulation. The bill that we are discussing today would extend this civil fining authority with the same limit to State agencies.

Mr. **Gunderson**. OK. I have one question for either the Department or General Accounting Office, et cetera. It comes from the testimony by the GAO. On page 2 you say: "For example, nearly 70 percent of all defaulters could not be located." That seems to baffle me. Is there no potential through Social Security numbers, et cetera, to locate defaulters?

Mr. **Gainer**. Those statistics are based on, I think, 1982 and 1983. I am not aware that any substantial improvement in that has taken place. But these are the accounts that go to the contractor. When they go to the contractor, the contractor has been unable, generally, to find about 70 percent of the people.

Mr. **Gunderson**. Is there any ability to use other Government agencies simply to find addresses of people through the Social Security system?

Mr. **Kimberling**. Mr. Gunderson, we currently are using a couple of steps to attempt to match up. We have a match with IRS and that has been successful in a number of cases. We also have had the Federal employee match to identify Federal employee defaulters. Also, since we have had authority, and I don't believe this authority was extant in the earlier period. Since we have had authority to report this information to consumer credit bureaus, we have been able to work cooperatively with them to get address information in a number of cases. That is why we like the extension of the consumer credit bureau relationship to the State guarantee agencies. Obviously, they are dealing with defaults and the paper at an earlier stage where it is easier to do skip traces.

Mr. HASTINGS. One of the things you have got to remember about the portfolio the Department of Education has is that it is trash. I don't have a good piece of paper in the house. Everything that I have, by definition, is in default, and in the case of NSDL, by law, it has been in default for at least 2 years before I get a chance to do anything with it.

I don't know the exact percentages; maybe Mr. Crissman recalls. But a large percentage—and I think a majority—of that paper is NSDL paper. The schools who, as you recall, gave us that paper and by doing so gave up their investment in that, obviously, they were ever going to be able to collect it. And in fact, most of the stuff that we got early on in the assignment and referral process from institutions was paper where the address was room 34 Varnum Hall or where there was no Social Security number on the note. If there is no Social Security number on the note, you are never going to find that person, unless you happen to have by accident their parents' name and address and they haven't moved in 15 years. That is the kind of situation that we are faced with in that portfolio.

Mr. KIMBERLING. Some of the paper assigned in the late 1970's or early 1980's was from the earliest period of the NSDL program stretching all the way back to 1958.

Mr. GUNDERSON. Thank you. Thank you, Mr. Chairman.

Mr. FORD. On page 8 of your statement, Mr. Gainer, toward the bottom of the page, you say contractors who have an economic incentive to compromise have done so on more than eight times as many accounts as the Department, and then you point out that in addition to compromising eight times as many on a percentage basis the amount that they give up in a compromise is substantially more than the average given up by the Department when it compromises.

We only gave the Department the authority to compromise a few years ago, as I recall, in the hope that they could recover something. What is the financial incentive, other than the obvious one that they are on a percentage basis? They get paid on a percentage of what they collect.

Mr. GAINER. That is what we are referring to.

Mr. FORD. If you have got a big package of loans out there ranging up to 40 percent in your fee, you are like the people I knew in the profession who were collection lawyers that would settle 50 cents because 40 percent of 50 cents is worth a lot more than the time that it would take to get a bigger payment. That is one of the problems I went around and around with the Carter administration when they started with a great bang with the idea of outside contracting, and was assured that they were going to write the contracts in ways that would tend to minimize that temptation which is, for whatever reason, in the minds of many of us at least, endemic to the loan collector business out there.

As you well know, professionals such as doctors, lawyers, and others, many years ago started looking at alternative ways to collect their bills because they were not at all satisfied with what it is costing them in return for their using the collection agencies. You mentioned that the Department is in the process of rewriting some of the regulations, or some of the future contracts. Do any of the changes that they propose address themselves to that problem?

Mr. Gainer. You are talking about in particular on the compromise?

Mr. Ford. Well, on the incentive to grab the quick money instead of going through genuine strenuous effort to collect it.

Mr. Gainer. I am not sure in a certain sense that the Government's and the contractor's interest don't converge in a certain sense because as the paper gets older it gets harder and harder to collect on. So I think you would hope the rational contractor tried to get as much money as they could as soon as they could. But I think they are constrained quite a bit in their ability to compromise from the rules they have to deal with. The Department has to give prior approval for a compromise, as well.

I think they really can't give up too much in a compromise, so I am not sure it is the same kind of problem that you have in the commercial sector where you don't have those rules.

Perhaps the Department could talk a little more about those constraints.

Mr. Ford. Maybe, Mr. Hastings, you could give us for the record your new contract, the way it is going to go and any explanatory material you might send with it, so we can understand how it is supposed to work.

Mr. Hastings. Yes, sir. I would be happy to, sir.

[The information appears at the end of volume.]

Mr. Hastings. I would like to make one point on that, though, because they noted it in their testimony somewhat obliquely. I have not seen the statistics comparing the extent to which our regional office Federal employees were compromising and the contractors were comprising until GAO asked us for the data. And when I looked at them I said, "Why in the devil aren't we compromising more?" Because, in fact, joint standards promulgated by GAO and Justice do encourage agencies to compromise to begin with.

And as I recall the numbers, for giving up about 25 percent of the balance we got 75 percent back. Now, obviously we don't expect either our own employees or the contractor to do that first crack out of the barrel. But where it is an old account where you have little hope of getting anything short of going to court, and you may not be able to go to court because of statute problems, it is in the best interest of the Government to do that. And we have instructed our regions to start compromising to a greater extent as a result of the process.

Mr. Ford. Mr. Hastings, you talked about the ongoing discussions that are going to lead to collection of the income tax refund for tax years 1985 and 1986. Will you use the same procedure to cover the NDSL's?

Mr. Hastings. Yes. Our portfolio—well, in the NDSL's that have been assigned to the United States, yes.

Mr. Ford. Not the NDSL's that have been assigned to you for collection?

Mr. **Hastings.** Yes. Everything that we have, which is about $400 million out of the total billion dollars in default in NDSL, which falls into the appropriate category.

Mr. **Ford.** The existing law said that the institution could send you the paper for collection and you could work out an arrangement with them for reasonable cost of collection, and then the money went back to them, did it not?

Mr. **Hastings.** That is only for the assignments—the referrals, rather, and we no longer allow referrals. It was an administrative nightmare and should never have done in the first place, in my view. Now the institutions can only assign the paper. They give up all right to it now.

Mr. **Ford.** So, the point I am trying to get at is under that Deficit Reduction Act provision that authorizes this, if you proceed with that, whatever is recovered by IRS is not going to come back to any of the student aid programs or even to the Department. It is going to go into the Treasury and will have to be chased by whoever is playing with the appropriations at any given time.

Mr. **Hastings.** That is correct, it will go to the Treasury.

Mr. **Ford.** We ought to consider some way to, if we are going to extend that authority—there are some real problems. However, I gather from what you said that it has already been determined that this has to be—no, I guess it was with the assessment of cost of collection. That would have to be prospective because, I assume, of the truth-in-lending law that requires that all of the conditions have to be up front.

Mr. **Hastings.** And also because of the language in the Debt Collection Act of 1982 which does have that language about contracts in it.

Mr. **Ford.** Thank you very much, gentlemen, for your cooperation, and particularly you gentlemen from the Department. It is a pleasure to have you up here, and we are looking forward to seeing and hearing a lot from you as we work together on this.

Mr. **Kimberling.** Thank you, Mr. Chairman.

Mr. **Ford.** The second panel is Dr. David Breneman, president of Kalamazoo College; Mr. James Gabler, director of government affairs, Van Ru Credit Corp.; Mr. A.R. Sullivan, chairman of the board, Association of Independent Colleges and Schools.

Without objection, the prepared testimony of each of the witnesses will be inserted in the record immediately preceding their comments.

We will start with Dr. Breneman. You may add to, supplement or summarize and comment on your testimony in any way you find most comfortable.

STATEMENTS OF DAVID W. BRENEMAN, PH.D., PRESIDENT, KALAMAZOO COLLEGE; JAMES A. GABLER, DIRECTOR OF GOVERNMENTAL AFFAIRS, VAN RU CREDIT CORP.; A.R. SULLIVAN, CHAIRMAN, BOARD OF DIRECTORS, ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

Mr. **Breneman.** Thank you, Mr. Chairman and members of the committee. As indicated, I serve currently as president of Kalamazoo College, which is a private, 4-year liberal arts college in Michigan enrolling approximately 1,100 students for the bachelor of arts degree. As such, I think we are reasonably representative of approximately 700 4-year independent institutions in this country.

Just to give you a quick idea of how involved we are with various forms of student aid, this year out of our 1,100 students 52 percent, or 577, of them are receiving need-based aid and the average aid package totals approximately $7,500. So although we are an independent institution, we are in many ways very dependent upon the programs that are under review today.

My testimony today, and my summary of my testimony, which you have entered into the record, will be on more than defaults, which is the specific issue of today's discussion. But I think in an important way what I will have to say does bear on the context in which the issue of defaults comes up and some of the factors that contribute to them. I appreciate that because of scheduling problems I had last week you were able, or willing to allow me to discuss some of these related aspects of the grant and loan programs that bear on the default issue; in particular, the issues of repayment terms, some concerns that we have in the National Association of Independent Colleges and Universities with the PLUS Program, the concern we have about the need for a nonsubsidized Guaranteed Student Loan Program, and some thoughts we have on educational savings.

But before I turn to those items let me make a personal statement on the issue of defaults, which is the principal business today. I think first it is very important to note what I now perceive in the role I am in the public misperception about the size of the problem. I think graphs of that sort should be photographed and carried on the front page of every newspaper. Because, as you indicated, Chairman Ford, you hear grotesque exaggerations about the degree of loan defaulting; and when you see that the size of the problem is more in the neighborhood of 5 percent than 50 percent that I think is an important image problem that we have with the program.

But even though the magnitude is not as great as some people think it is, I think all of us feel it is a very severe public relations problem, and it is a problem that threatens the program. It makes it harder to argue for improvements, increases and changes in a program if people perceive it as unfair and subject to fraud and abuse.

My own view is that one of the major causes of default is the lack of care, perhaps, that we take on the terms under which students borrow and on the repayment terms that they face once they go into repayment. Hence, the NAICU proposals for the reauthorization focus on both of these aspects in ways that I personally very much support. The idea that as a number of associations are concerned about increasing loan limits, I, for one, was not willing to endorse that in an across-the-board fashion because I feel that particularly the first 2 years of a student's enrollment in any institution, public or private, there is a much higher risk and uncertainty factor.

I think some of the statistics that are coming out will bear out the fact that the biggest default problems, in fact, occur from students who enter and enroll for a year or two and drop out and see very little value to the experience of college; and, hence, may somewhat cynically view repayment as something they aren't obliged to do. As students go on and progress toward their degree, and particularly as they get into their upperclass years and get their degree and into graduate school, again I think the statistics bear out that the default rate declines with that group of students.

Hence, our proposal is that the eligibility limits not to be raised for the first 2 years of student enrollment, but then be eased up as students enter their upper-class and graduate years. I think if a principle like that is in place that will in itself go a long way toward reducing the group that is most subject to default.

Similarly on repayment terms, we don't have time today to go into the various ideas that seem to have floated around in this world for 15 years or more about the interest income contingent repayment, repayment through the IRS in some fashion at tax time and so on, but I think the need to be able to consolidate loans and to work out a reasonable repayment schedule rather than being subject to multiple loan repayments that don't coordinate with each other clearly is just so sensible it seems hard to believe that we are still some steps removed from having achieved that.

Overall, though, and I am not familiar with the details of your bill, Mr. Coleman, I certainly as a president strongly endorse the notion that anything we can do to improve our efforts to collect and take care of the default program is a very important one for all of us. I think that we made major strides in the late 1970's or early 1980's in getting rid of some of the more egregious problems.

I can report to you, as one institution, we take the default issue very seriously. We will not, particularly in the NSDL, release student transcripts if they are in default, and that is a very powerful hook on motivation. I get anguished letters from parents, probably one or two a month, going into the gory details of Johnny's problems of repayment and wishing that we would release a transcript because Johnny is now ready to go on to graduate school, and we just hang tough. That is one of the few hooks that we have and we use it very strenuously.

Let me move now to comment briefly on what I see some of the context of this problem of defaults is caused by and a concern that I think all of us in the higher education sector worry about. The research arm of NAICU, the National Institute of Independent Colleges and Universities, recently conducted its fourth annual student aid survey of about 5,400 student records in a stratified random sample. We found that in our sector, the independent sector, that 1.4 million students, or 63 percent of all of our enrollment, received student assistance from the Federal Government, State government, the institution or their own private source; 84 percent of those need-based recipients received some form of Federal aid. The average family income of all of the recipients of Federal assistance was about $22,000, and if we exclude the students that received only GSL's, the average family income of the recipients in the independent sector was $17,600.

There have been allegations, I am told, made in the hearings heretofore that suggest the students in the independent sector are exclusively, or disproportionately from high socioeconomic income categories, and I would suggest to you the data just don't support that. Many of our institutions—I cited you my own figures—enroll, and very much want to enroll, low-income students and see, among other things, the GSL Program is critical to that.

What has concerned us all, though, in the last 4 to 5 years as the appropriations rate and levels for the grant programs have been held essentially constant in current dollars is that the participation rate of our needy recipients, for example, the Pell Grant Program, declined from a high-water mark of 66 percent in 1979–80—this again in the independent sector—to only 39 percent in 1983-84 with the average grant award increasing only slightly from about $974 in 1979 to $1,164 in 1983.

Similarly, the Supplemental Education Opportunity Grant Program has had slippage in the percentage of our students receiving it from 31 to 20 percent, and in the average award from $694 to $650.

We have also seen cuts in the new Federal capital contributions for NDSL. Work-study opportunities have not grown. And particularly in the State of Michigan, our State student aid programs have been under sharp duress. The net effect of all of this, as the Federal and State grant and work and loan programs—NDSL, in particular—have been held fairly constant in an environment still experiencing sharp cost increases is that our students have become ever more dependent on loans. That has been the principle and dramatic item that has increased in our student aid budgets, and the part that we are increasing at the institutions level our own commitment of funds to students has gone overwhelmingly to try to reduce the amount of GSL in a typical aid package.

I referred earlier to a $7,500 average need package at our college. That is actually made up of a $2,500 GSL and a $1,500 NDSL. So we are talking right off the bat, before we enter any of our own money into it, $4,000 in loan per year for 4 years for an average student at the college. We feel that is too much, and we try to cut back and reduce the loan debt by giving our own unrestricted funds. We have had dramatic increases, and all of us in the independent sector have increased dramatically the funds we are putting to that purpose; but, nonetheless, the average debt burden of our students has gone up dramatically in the last 4 to 5 years.

For example, in the data base at NIICU, looking from the fall of 1979 to the fall of 1983, the percentage of dependent recipients borrowing a GSL jumped from 15 percent to 57 percent. The average loan jumped from $1,787 to $2,249. And even among the very lowest income students, those with an adjusted gross income of $6,000 or less, that group which had previously had a very low borrowing rate—15 percent in 1979 borrowed—that group had jumped to 57 percent. So at all levels of income over the last 5 years the big change in student aid has been the big jump in borrowing, the big jump in institutional unfunded or unendowed aid that comes out of our hides, money we could use for other things, and the fairly level of grant and work programs.

Why do I belabor you with this? Is that we feel that if these trends continue for another 5 years then we may be looking I think at some very serious problems of debt burden. Many of us in higher education are worried about how this level of debt constrains and distorts student choice, affects decisionmaking, reduces the willingness of young people to take on relatively low-income occupations—

teaching. We are going to be facing a dramatic, desperate, I think, teacher shortage at the K through 12 levels in the next few years. These are still fairly low-paying jobs and students with $12,000 to $15,000 of debt to service and to repay on, particularly if there is not an income contingent feature in it, are simply going to steer away from these low-income jobs that society very much needs.

This also explains the reason for NAICU developing, as part of our higher education reauthorization proposals, a proposal to restructure the Pell Grant Program to target support more on low-income students and to introduce price sensitivity into the basic structure of the program. And in prior testimony and in the April 30 submission you have received documents from us outlining our program, our proposals for these grant programs. But they come not out of any desire to wage internecine warfare with our colleagues in the public sector, but out of a very strong sense that these programs are serving less and less well, as currently structured, the needy students in the independent sector.

Let me turn briefly now to three other topics that you were kind enough to let me speak on. First, is the PLUS Program, which hasn't had a great deal of publicity. In fact, since it was introduced in fiscal 1981, I guess that first year only 11,000 loans were made under this program which was meant initially to be kind of a loan of last resort to parents of students who were still not able to finance an education. By the end of fiscal 1984 this program had only approximately 293,000 loans made under it. For GSL, by comparison, 3.6 million loans were made in fiscal 1981 and nearly 12.5 million were made over the 4-year period 1981–84.

We continue to believe that the GSL Program is absolutely essential, but we are concerned, and want to talk to you briefly, about PLUS because we do feel that there are people that GSL doesn't reach in the current climate, and that we need to take PLUS very seriously and try to make it a more viable program.

We think there are two structural defects that inhibit its usefulness to people. The first is the repayment process, which means each loan goes into repayment virtually as soon as, or shortly after it is made. If a parent borrows for 3 or 4 years, each loan is treated separately. Each one is viewed as a separate loan obligation and you have a set of three or four repayments coming together and not coordinated in any fashion.

So one proposal we would make is that if a parent is borrowing two and three times under the PLUS Program that they be allowed to—structure be set up so that they can consolidate and keep a single loan total going, so that the first loan gets refinanced as part of the second, and then a single payment made on the basis of the total together.

The second problem gets into technicalities that I am not terribly well versed to go into, but it has to do with the marketability and transferability of the paper once made. And that is, I understand there is currently only about a 60-day window for lenders to sell and purchase and transfer these loan agreements, so the secondary market in PLUS loans has not developed in the way that one might hope it would. Our proposal is that this window be extended another 60 days, so that the secondary market would have a maximum of 120 days in which to function.

The second point I want to touch on briefly is the idea, or the notion of a nonsubsidized guaranteed student loan. Certainly we have seen in the administration's proposals this year and in prior years a desire I think triggered quite properly by some of the excesses of the programs that we enacted in the late 1970's that opened up GSL on a subsidized basis to everyone. That set in place certain abuses that were corrected in 1981, but there is still pressure to get certain families out of the GSL Program.

Having a guaranteed loan, however, is a prerequisite for any type of capital market to function in this area. But having a subsidized Guaranteed Loan Program is not an absolute technical necessity. It is possible to have a nonsubsidized Guaranteed Loan Program as a loan of last resort; not replacing GSL, but as another form of loan that a parent might draw on. So we would suggest that in the reauthorization thought be given to that possibility.

Finally, and I will close, a number of us—and I testified on this in hearings in Michigan. A number of us in higher education are looking at the genuine problem faced by the needs analysis system which, in a sense, tends to penalize parents who save. We have all seen the letters. I am sure you have received letters, hundreds of them, from parents who say we have scrimped and saved and then the need analysis system took all that from us and my son or daughter wasn't eligible for aid; somebody who is profligate and doesn't save a dime winds up being eligible for all sorts of aid.

That is an unfortunate disincentive that we have, perhaps, inadvertently built into the system. And so a number of us, again, are very concerned to reinstate a notion of parental responsibility or saving and helping to pay the cost of students' education. We would like to see, in short, some form of educational savings account idea developed. This is a concept which the current administration and the Congress in various ways have expressed support for over the years. The notion of a separate new, discrete educational savings account has not gone anywhere, however, but a number of us think that with some suitable legislation one could open up the independent retirement accounts which are becoming, I think, very quickly the principal vehicle for savings for the vast number of middle and upper income families. To open those IRA accounts up on some basis for legitimate higher educational costs.

This is, in our view, the principal way that people are going to be putting the first $4,000 of their savings each year, and over time these funds are going to add up. We are already grappling with how those are factored into the needs analysis system: Do you ignore them? Do you add the income back in the year that it is contributed? But what about the fund? What about the accumulated asset that builds up in this form of pension?

Our view is that this is a subject well worth study. NAICU has a task force, of which I am a member, hard at work on looking at the technical issues involved. So far we think it is an idea worth pursuing and it has some very positive pro-family, if you wish, and pro-family responsibility features to it which we think we would be an important addition to the total aid structure that we have in this country. So, as our work proceeds we hope that in the course of the reauthorization we can submit further suggestions to you in that regard.

Thank you very much.

Mr. FORD. Thank you.

[The prepared statement of David W. Breneman follows:]

PREPARED STATEMENT OF DAVID W. BRENEMAN, PRESIDENT, KALAMAZOO COLLEGE, ON BEHALF OF THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES AND THE ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES, ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES, ASSOCIATION OF PRESBYTERIAN COLLEGES AND UNIVERSITIES, COUNCIL OF INDEPENDENT COLLEGES, NATIONAL ASSOCIATION OF SCHOOLS AND COLLEGES OF THE UNITED METHODIST CHURCH

Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is David Breneman. I am President of Kalamazoo College in Kalamazoo, Michigan. Founded in 1833, Kalamazoo College is among the nation's 100 oldest colleges and universities. Kalamazoo College is a nonprofit, independent institution enrolling 1100 undergraduates in a liberal arts curriculum leading to the Bachelor of Arts degree. Our curriculum and associated year-round academic calendar are exceptional among all colleges and universities. Most distinctive are the career-development internships and foreign study programs in which more than 80 percent of our students participate. Our students regularly study in more than a dozen countries in Africa, Asia, Europe, and South America. For 1985-86, our annual comprehensive fee will be $10,600, including a tuition charge of $7,700.

I am pleased to appear before you today to present the views of the NAICU membership on several policy issues you are considering for the Guaranteed Student Loan program. We submitted our recommendations for reauthorization of the Higher Education Act to the Chairman and to the Ranking Republican Member on April 30, and I have attached to my testimony a summary of those recommendations. And, I would note that we generally support the recommendations for GSL made by the American Council on Education.

But before I discuss our recommendations and our reasons for making them, I'd like to give you some background on the National Association of Independent Colleges and Universities, and provide you a snapshot view of student financial assistance as it existed on our campuses during the 1983-84 academic year, the last complete year for which data is available.

NAICU is an organization of 850 independent, nonprofit colleges and universities, and state, regional, or other special purpose organizations, based here in Washington, D.C. to provide a unified national voice for independent higher education. Last year, NAICU institutions enrolled 2.6 million students (approximately 21 percent of all students enrolled in higher educational institutions), and the 1984-85 price of education -- the amount actually charged to students at registration -- averaged $9,022, including an average tuition and fee charge of $5,016.

What we charge our students is a more accurate reflection of the actual cost of the education offered than is the case in other types of higher education because we carry on without the direct operating subsidies provided by state taxpayers to reduce the tuition charged to public-sector students. Less than one-fifth of revenues for independent colleges and universities comes from governmental -- federal, state, or local -- funds, while income from tuition, fees, and services (bookstores, campus housing, etc.) extended to students contributes more than 63 cents of every dollar of operating revenue at our institutions. A substantial portion of that operating revenue, nearly $2 billion in 1983-84, was provided by our colleges and universities directly to their students in the form of institutional student financial aid. And, Mr. Chairman, I would also note that, although we enroll only 21 percent of all college students, we award 33 percent of all bachelor's degrees, 39 percent of all master's, 37 percent of doctoral degrees, and 59 percent of all first professional degrees.

Our research arm, the National Institute of Independent Colleges and Universities, conducted its fourth annual student aid survey for academic year 1983-84 of 5,416 actual student records using a stratified, random sample of all independent institutions. NIICU found that 1.4 million students in independent colleges and universities (63 percent of all students in the independent sector) received student assistance from the federal government, their state government, their institution, or some other private source. Eighty-four percent of them (1.2 million students) --

almost half of all independent sector students -- received some form of federal aid. Seventy percent of all federal aid recipients were dependent on their families for support, receiving an average of $1,920 per student toward their college expenses, or 22 percent of the average price of education. More than 80 percent of our recipients were between the ages of 18 to 24. Ninety-six percent of our dependent federal aid recipients attend for the full academic year, and sixty-one percent live on our campuses. And, finally, the average family income of all recipients of federal assistance was $22,100, and if we exclude GSL-only recipients, the average family income was $17,600.

What we found in terms of the type of assistance they received was most disturbing, especially when compared to the surveys NIICU conducted in 1978-79, 1979-80, and 1981-82. The participation rate of our needy recipients in the Pell Grant program declined from the high water mark of 66 percent in 1979-80 to 39 percent in 1983-84, and average Pell Grant awards increased only slightly from $974 in 1979 to $1,164 in 1983. Similarly, for the Supplemental Educational Opportunity Grants program (the other major federal need-based grant program), the percentage of recipients/average award declined from 31 percent/$694 in 1979-80 to 20 percent/$650 by 1983-84 academic year.

Low-interest National Direct Student Loans declined dramatically, and work-study opportunities, together with state need-based aid, declined slightly over the same period. Even with institutions struggling to fill the gap by increasing their need-based student aid, the result of the reduced grant participation rates and average awards, and the declines in other programs, were predictable -- more needy students in independent colleges and universities found themselves increasingly dependent on larger Guaranteed Student Loans to help finance their educations.

In that four-year period from fall 1979 to fall 1983, the percentage of dependent recipients borrowing a GSL had increased dramatically -- from 15 percent to 57 percent, with the average loan also increasing from $1,787 to $2,249! More distressing was the fact that the lowest-income students (AGI of $6,000 or less) were as heavily dependent on GSL to meet their educational costs, with 57 percent from this lowest-income category borrowing an average of $2,259, as compared with 15 percent in 1979 borrowing an average of $1,400.

It is that factual background of diminished availability of grant assistance and greater reliance on loans for students attending or aspiring to attend independent colleges and universities, that caused our membership to adopt policy recommendations for reauthorization of the Higher Education Act designed to redress this imbalance between grant and loan support for needy students in general, and for the lowest-income students in particular.

That is why we developed a proposal to restructure the Pell Grant program to target the support on low-income students and insert price sensitivity into the basic structure of the program. That is why we recommended a revamped SEOG program that targets funding on students with the greatest need for funds, and ties appropriations for the two major federal grant programs more closely together. And that is why we proposed that the GSL program be restructured to limit loans to need, with slightly increased maximum loan amounts for established students, with opportunities for students to consolidate their loans when they enter repayment under income-related payment schemes, and with loan amounts not reduced by arbitrary origination charges.

Let me now turn to the specifics of our recommendations for GSL that are the subject of today's hearing.

Mr. Chairman, the Guaranteed Student Loan program continues to be an important program for students aspiring to independent higher education. In the twenty-year history of the Higher

Education Act, we have seen the federal student aid programs bring about a radical transformation in the make-up of the college-going population, not unlike the result of the original GI Bill. Equal higher educational opportunity has become a reality only through the commitment of the Congress to ensure all qualified students the chance to pursue, with a measure of personal sacrifice, their higher educational aspirations. We urge you to revise the GSL program along the lines we suggested in our submission to you, but to continue the program in the reauthorized version of the Higher Education Act.

Loan Defaults

The issue of student loan defaults has commanded the attention of the Congress, the media, and the American people since early in the history of the GSL program. However, the rate of student defaults did not become a significant problem until the middle to late 1970s when borrowers began to realize that collection efforts were spotty, at best, and the consequences of defaulting were minimal. Congress and the Administration responded by strengthening due diligence requirements, implementing better collection procedures, hiring collectors or contracting with private collection agencies, providing incentives for lenders and state agencies to collect outstanding loans, and implementing better administrative and management practices.

The result of all of that legislative and administrative activity has been to bring the default rate down from a high of 12 percent a few years ago to less than 5 percent today.

But, there is another side to the default issue that we would like to emphasize. Continuing studies by lenders find that there are direct relationships between defaults and student success and between defaults and the amount a student borrows. The longer the student studies and maintains progress and the more degrees the student receives, the less likely he or she is to default. And, the larger the debt of the student during that time, the more likely he or she is to repay the loans. I cited earlier the completion rates of students attending independent colleges and universities and the data showing that our students are borrowing more and more to finance their college educations.

More can be done to deal with student loan defaults including implementation of the recommendations we made to you in our April 30 submission. We recommended that you limit increases in the amount a student may borrow to those students who have successfully completed their first two years in pursuit of a bachelor's degree, that you limit all loans to the amount remaining after all other forms of student aid are exhausted, and that you allow students with heavy debt burdens to consolidate their payments on early or extended repayment plans that are related to their earnings. We believe these measures will help to keep the default rate going in the right direction.

Mr. Chairman, you received testimony last week on three subjects that involve reauthorization recommendations from NAICU. As you know, we were unable to adjust schedules to appear before you at that time; therefore, I will turn to them now.

GSL Alternatives

NAICU has studied the subject of alternatives to the Guaranteed Student Loan program for the past five years and has concluded that there really is no alternative to the program. It continues to function as an assured source of credit to a significant number of persons who ordinarily would not pass credit checks required by lending institutions to borrow the funds needed to obtain their higher educational goals. It continues to operate at a relatively low cost to the federal government in that private funds are used to make the loans, with federal costs limited to subsidies to lenders and repayment of principal and interest to lenders for those borrowers who die, default, or are disabled.

While we see no alternatives to such a program, we believe a number of supplemental programs are necessary in order that all students can finance their higher educations. Included in the category of necessary supplemental programs are (1) the existing Parent Loans for Undergraduate Students, or PLUS, program, (2) a non-subsidized federal student loan program that carries the federal guarantee, and (3) tax benefit programs that allow parents or other family members to set aside savings for prospective students that do not result in a tax disadvantage for the person setting aside the funds.

PLUS

We recommend the continuation of the PLUS program, with amendments to make it more attractive to lenders. This program, when originally conceived in 1980, was viewed as a major program of assistance for students attending independent higher education. But, the program has not grown as we originally had hoped. In FY 1981, for example, only 11,000 loans were made and, by the end of FY 1984, a total of 293,000 PLUS loans had been made. For GSL, by comparison, 3,529,000 loans were made in FY 1981, and nearly twelve and a half million were made over the four-year period, 1981-1984.

Two major structural deficiencies have had a chilling effect on the making of PLUS loans. The first is that as distinguished from GSL loans, PLUS loans do not enter repayment simultaneously. This is because the commencement of the repayment of each PLUS loan is related to the date on which it is made, while the repayment of GSL loans is related to the date on which the student borrower leaves school. As a consequence, each PLUS loan forms a separate loan account, resulting in a high unit cost of servicing. This also generally means multiple billings to a single PLUS borrower, even if there is a single lender. The proposed cure for this problem is to permit a previous PLUS loan held by a lender to be refinanced by the lender each time the lender makes a new PLUS loan to the same parent. The outstanding principal balance of the previous PLUS loan would simply be added to the principal of the new PLUS loan and the total principal amount would be due and payable over the term of the new PLUS loan. Holders of PLUS loans of the same parent would also be able to refinance those loans for up to a ten-year period from the last disbursement. The refinancing of PLUS loans can occur with respect to any of a parent's loans without regard to which of his dependents' education is being financed.

The second problem is that there is only a 60-day window for proper arrangements to be made for the sale, purchase, and transfer of a PLUS loan subsequent to its origination but prior to the commencement of repayment. The availability of a secondary market for PLUS loans can be enhanced if the loans can be transferred prior to the lender's establishment of repayment schedules with the borrower. In the GSL program this is accomplished during the six-month grace period. We propose to permit the lender or the purchaser to postpone the commencement of repayment for up to an additional 60 days if the lender is going to sell the loan (which could include previously financed loans which are being refinanced). In such circumstances the period of time from disbursement to the beginning of repayment could be extended to a maxiumum of 120 days.

Non-Subsidized Guaranteed Student Loans

We recommend that you re-institute a program of non-subsidized but federally-guaranteed student loans for those students who have need for more borrowed capital than the GSL program allows, or for those students who need to be able to borrow some portion of their family contribution. We believe these federally-guaranteed loans could provide an incentive for individual institutions, groups of institutions, insurance companies, or regional lenders to provide the in-school interest subsidy on behalf of students.

The costs of such a program to the federal government would be marginal because the capital would be private: the subsidies, if provided at all, would be paid by non-federal entities; and the default rate would likely be low due to the "loan-of-last-resort" nature of the program. Yet, the benefit would be substantial for students in need of more capital than is offered by the highly-subsidized GSL, or moderately-subsidized PLUS programs.

Educational Savings Accounts

Another issue which NAICU has explored over the past several years is that of education savings accounts, allowing a tax incentive for contributions to savings accounts for a child's higher education. The concept is one for which the Administration and the Congress have expressed support over the years. The Administration has supported the exclusion from income of interest earned on savings accounts established for higher education purposes. Although we welcome the support of the concept by the Administration and see it as a step in the right direction, the proposal does not offer, in our estimation, enough of an incentive to parents saving for their child's higher education. There have been numerous bills proposed by Members of Congress, including several key members of the House Ways and Means and Senate Finance Committees. Most of those bills center around a yearly tax deduction for parents who establish a savings account solely for higher education purposes, with amounts taxable to the student or parent upon withdrawal. Again, such legislation moves in the right direction yet presents great difficulties since many of the proposals would require beginning a new tax incentive program.

We would therefore suggest that the Subcommittee consider tying education savings into the already well-establised Individual Retirement Accounts. NAICU agrees that parents must recognize their responsibility to assist in the higher education of their children. In fact, a survey conducted by the Roper Organization in conjunction with our research institute suggests that 66% of all parents think they have the primary responsibility for financing higher education for their children. We think it important to advance legislation which recognizes that responsibility and provides enough of an incentive so that parents will begin saving for children at an early age. Allowing withdrawals from IRA's, for example, for retirement or educational purposes would provide such an incentive. NAICU has a task force, of which I am a member, discussing the specific points that must be considered in such a proposal, such as maximum allowable amounts, persons eligible to set up such accounts, persons responsible for tax payment upon withdrawal, treatment of the account for purposes of determining student aid need, and other important questions. We will be happy to share with you the final deliberations and recommendations of that task force as soon as they are available.

Mr. Chairman, we have a number of other proposals relating to grant, loan, and work programs, together with the means used to determine student eligibility for those programs which will be the subject of future hearings. I thank you for the opportunity to present our views on GSL issues today, and I will attempt to respond to any questions that you or other members of the Subcommittee may have about our proposals.

NAICU RECOMMENDATIONS FOR REAUTHORIZATION OF THE HIGHER EDUCATION ACT

TITLE IV - STUDENT ASSISTANCE

Student Grant Programs - Continue the existing federal policy goal that every eligible student shall receive aid under the Pell Grants, SEOG, and SSIG programs that, in combination with reasonable parental and student contributions, will be sufficient to meet 75 percent of a student's cost of attendance.

Pell Grants - Restructure Pell Grants in order to resolve the long-standing conflict among sectors of higher education over percentage-of-cost limitation/maximum award/funding triggers for other programs by instituting a new Pell Grant formula. The formula would target the program on low-income students and insert price sensitivity into the basic structure of the the Pell Grant program, basing eligibility on a two-part formula: (1) half of tuition, mandatory fee, and book expenses for all eligible low- and middle-income students, up to a maximum of $2,100, plus (2) a substantial allowance to cover living expenses for all low-income students, up to a maximum of $2,100. This mechanism would award substantial grant dollars to low-income students for their living expenses plus half of their tuition expenses in order to assure their access to all types of higher educational opportunities, but would limit the participation of middle-income students to just half the "price" charged to them.

The proposal assumes the same taxation rates on discretionary income for dependent and independent students in order to provide substantial grants to low-income students and a $200 minimum award to a student from a typical family of four with one in college and an adjusted family income of $30,000.

Supplemental Educational Opportunity Grants - Reauthorize the SEOG program with a funding authorization of no less than 15 percent of the appropriation for Pell Grants. Target SEOG funding on students with greatest need for funds (defined as those students whose expected family contribution is less than one-half of their total cost-of-education). Maintain institutional "hold harmless" level at amount institution used in academic year 1985-86 (FY 1985 appropriation). Allocate all new funding above the FY 1985 level only to those institutions whose institutional "Fair Share" exceeds their institutional "Conditional Guarantee". Reinstitute institutional matching requirement in program, with matching funds to come from non-federal sources. Drop use of institutionally-provided need-based student grants and awards from formula used to determine institutional need for SEOG.

State Student Incentive Grants - Reauthorize the program and allow states to use up to 50 percent of new allocations, above FY 1985 level, to establish or sustain a 50/50 federal/state matching work-study program.

College Work-Study - Reauthorize the program without changing the language that limits CWS to non-profit institutions, without changing the existing reallocation procedures, and without consolidating the program with Cooperative Education. Allocate new funding above the FY 1985 level as in SEOG (see above).

National Direct Student Loans - Reauthorize the program and rename the program for its principal advocate, the late chairman of the House Education and Labor Committee, Representative Carl D. Perkins.

Guaranteed Student Loans - Reauthorize the program increasing the annual loan limits for those undergraduates who have completed their first two years of study toward a bachelor's degree and for graduate students to $5,000 and $8,000, respectively. Aggregate limits are increased to $20,000 for undergraduates and an additional $25,000 for graduate students. Limit all loans to need remaining after all federal grant, work, and loan benefits, together with all expected parental/student contributions are taken into account. Provide for borrower-requested consolidation of student loans. Repeal the origination fee. Provide for a federally-guaranteed, but not federally-subsidized, "loan of last resort."

PLUS Loans - Reauthorize the PLUS loan program making it more attractive to lenders, and therefore a more viable program for borrowers, by allowing consolidation or refinancing of loans, and by allowing secondary markets to adjust payment schedules with the borrower.

Master Calendar - Establish a master calendar for the delivery of student aid in order that the student aid system may function smoothly.

Verification - Require verification documentation to be submitted on all federal student aid applications.

TITLE III - INSTITUTIONAL AID

Reauthorize program with three separate parts: Grants to strengthening institutions, grants to Historically Black colleges and universities, and Endowment grants. Alter eligibility criteria to include a wider body of institutions. Expand permissible uses of grant dollars to include recruitment activities and training of administrative staff. Make Cooperative Arrangements a high priority funding area with more lenient restrictions on participation.

TITLE VII - CONSTRUCTION, RECONSTRUCTION, AND RENOVATION OF ACADEMIC FACILITIES

Reauthorize title with emphasis on renovation rather than new construction. Increase funding authorization to reflect the increasingly critical need for assistance in this area. Streamline title by deleting unfunded provisions for loan insurance and interest grants. Delete community college setaside provision so that all types of institutions compete equally on the merits of their applications.

Mr. FORD. Mr. Gabler.

Mr. GABLER. Thank you, Mr. Chairman and members of the subcommittee. I am Jim Gabler, director of governmental affairs for Van Ru Credit Corp. in Chicago.

Van Ru Credit Corp. is a commercial collection agency for the last 32 years. Van Ru is the largest for-profit entity committed to reducing student loan defaults, and we have dealt very heavily both in the NDSL marketplace and the guaranteed student loan marketplace.

I, personally, am pleased to testify today. I am fast approaching my 20th year in this program, serving both as a lender for 4 years, as a State administrator for 12 years, and now 4 years with the collection agency. I believe I have a perception that covers many areas.

In the last few weeks the subcommittee has heard considerable testimony on various proposals to reduce the default rate on the guaranteed student loans. Among these proposals have been the multiple disbursement, copayability and the establishment of a loan consolidation program. I, personally, believe that all three of these specific goals will result in a smaller number of loans going into default. In approaching the issue of defaults, however, it is important to recognize that regardless of the administrative improvements we make in the guaranteed student loan there will be still some borrowers who will go into delinquency or default status, such as skips, debtor refuses to pay, public aid cases, bankruptcy, and total disability cases.

It is in the cases of skips and the debtor refuses to pay where the specialized services of Van Ru Credit Corp. can make a contribution in reducing defaults in the program, therefore, reducing the Federal costs. Before I go into a more detailed discussion of the student loan collections, however, I would like to emphasize that the Guaranteed Student Loan Program generally does not suffer a disproportionately high default rate. In fact, the cumulative net default rate on loans guaranteed by State agencies is currently less than 4.5 percent.

In my comments today I will be outlining approaches to the collection of GSL's which I believe can prevent a large number of loans from becoming defaults. I want to emphasize, however, that the Van Ru Credit Corp. believes that the State guarantee agencies are currently doing a good job in addressing the default problem and they are continuing to implement new approaches and procedures to minimize the default losses.

In working with the guarantee agencies and other participants in the program, collection agencies seek to apply our specialized skills on accounts which earlier collection efforts have failed. These earlier efforts generally are made directly by the lender, the services or by the guarantee agency. All three entities under the Higher Education Act exercise due diligence over preclaim activities in attempting to cure the defaulted loans prior to the claim for Federal reinsurance being made. And I would echo Mr. Kimberling's remarks earlier to you that talk about preventive measures.

In practice, the initial effort is usually made by the lender or the holder of the loan. As you know, Mr. Chairman, a great number of lenders in the program sell their loans to secondary markets prior to the loans entering repayment status. The holder of the loan generally begins making a collection effort 7 to 10 days into the delinquency cycle. At this point, the greatest problem of the holder is often simply to locate the borrower. In a great number of instances simply locating the borrower and informing or reminding them of their obligation under the program will result in the default being avoided. Often, for example, the lender or holder has simply not been informed that a loan is still in a deferment status.

After 60 to 90 days, the holder will file a preclaim notice with the guarantee agency. At this point, for a period that usually extends up to 120 days of delinquency, the guarantee agency will provide preclaim default prevention assistance to the holder. These efforts generally consist of letters being sent to the borrower and attempts being made to speak to the borrower by telephone. These efforts are usually made inhouse, but in some instances will be contracted out to a commercial collection agency.

The costs incurred in making preclaim collection efforts are met by the ACA, or administrative cost allowance, and the proceeds of the insurance premiums paid by the borrowers on loan origination. The amount of costs incurred in particular collection agencies vary a great deal from agency to agency because of the quality of the documents associated with the loan, geography and background of borrowers of loans that were guaranteed.

After 120 days the guarantee agency may place a loan in a default status and file a claim for reinsurance with the Federal Government. When this occurs, the Federal Government, out of the Department of Education funds, pays the guarantee agency for the default under the reinsurance program. Last year the total for such payments was approximately $759 million.

At Van Ru we have had considerable experience in working with lenders/guarantee agencies on loans during the period of 90 to 210 days with the thrust being to prevent the loan from going into default. During this period before the reinsurance claim is made we have found that the professional collection effort can prevent many of these delinquent loans from going into default. We call this effort which is applied to loans after a preclaim collection has been made the supplemental preclaim collection effort.

As a commercial collection agency, we have sought to market our services to guarantee agencies. Several agencies have contracted with us. Other agencies, however, have stated they simply cannot afford to supplement preclaim collection efforts out of the funds available to it under the ACA or from insurance premiums.

The shortage of funding for supplemental preclaim effort is unfortunate to the Federal Government because I believe that at least 20 percent of the Federal Government defaults could be prevented through this form of program. It is also unfortunate for the individual student loan borrowers who go into default because I know from direct experience that many of these borrowers would not go into default if their loans were subject to one last professional collection effort.

When a student loan goes into default, Mr. Chairman, the Government and the individual borrower are both losers. In addition, the public perception of the GSL Program, which is to important to maintain public support for student loans, is undermined.

Van Ru Credit Corp. has studied the Higher Education Act in order to find means of funding supplemental preclaim assistance without increasing the Federal costs associated with the program. I am happy to say, Mr. Chairman, that we have developed such an amendment.

Our amendment would simply allow guarantee agencies to add the costs of supplemental preclaim assistance to the reinsurance claims on the loans which the supplemental preclaim assistance was provided but did not result in the loan returning to a current status. An example would be a loan borrower who skipped, was unlocatable by both the lender or the guarantor and was subsequently located under supplemental preclaim assistance and determined to be totally and permanently disabled.

In order to assure that the supplemental preclaim assistance is truly supplemental to the preclaim efforts already required under the act, our amendment would prohibit the holder or servicer of the loan, or an entity other than the guarantee agency itself from conducting the supplemental preclaim effort. It is our hope that under the amendment that the guarantee agency would conduct a vigorous preclaim collection effort on loans, and if efforts were not successful, that we would use the supplemental preclaim effort. We would envision this program effort consisting of a fresh set of eyes reviewing the loan folder and perhaps a new approach, different than that used in the preclaim effort.

Generally, the supplemental preclaim would consist of a professional loan collector conducting skip tracing and direct communications on the loan. The cost of these efforts generally amounts to no more than $100 or 2 percent of the total amount of the loan indebtedness. In order to build cost controls into the supplemental preclaim collection program, specific cost limitations have been included in the amendment.

The savings to the Federal Government on supplemental preclaims is quite significant. Considering that the average default claim is $3,000, the program will provide the Government with a savings at a rate of approximately 40 to 1. Documentation of this return is available for the committee's review. A copy of our proposed amendment is attached to my statement.

I am happy to say, Mr. Chairman, that the Congressional Budget Office has estimated that the supplemental preclaim assistance could save the Federal Government $19 million in the 1st year of implementation. We estimate, on the basis of our actual field experience, that the actual savings could be even higher.

I would now like to turn briefly to a broader discussion of some other possible approaches to reducing default losses in the program. Some of these approaches have been developed by the National Council of Higher Education programs, others by lenders in the program. In each instance, I believe the adoption of a particular approach could either prevent a loan from going into delinquency or default status or it could help in the collection efforts on the loan if it does.

The first suggestion I would like to mention is that the existence of a GSL be reported to a credit bureau at the time it is originated or at the time that it enters repayment. This simple step can help borrowers from being granted credit in excess of the amount justified by the earnings of the borrower.

A second approach would be to simplify the enrollment verification process in order to provide lenders and holders of loans with a more timely notification of changes in the borrower's status. These changes would facilitate the tracking of borrowers upon the borrowers leaving school.

A third change would be to expand the access of the guarantee agency and lenders to data bases such as Social Security. This access could considerably simplify the difficult task of locating borrowers.

A fourth change is a proposal to rehabilitate already certain defaulted loans. Mr. Chairman and members, if you remember, on the 1st day of hearings we had from a student by the name of Mr. Lawlor, who, despite his best efforts, could find himself in a default situation because of the amount of his student loan indebtedness. I am sure Mr. Lawlor will make good on his loan commitments, but many highly indebted borrowers may not, at least initially. Many of these borrowers will miss four or five payments, during which time the loan will go into default. Afterward, however, the borrower may resume making payments after the guarantee agency makes a collection effort either directly or through a collection agency.

In these instances where the borrower has demonstrated a reasonable repayment system, the loans could be eligible for repurchase by a lender or a holder and reguaranteed by the guarantee agency. I would also suggest that within that the guarantee agency be able to offset all of its expenses up to the 30 percent limit.

Under this proposal all the parties are winners: (1) the Federal Government is reimbursed its fair share of the original default cost; (2) the guarantee agency has more incentive to accept monthly payments as versus suing debtors; (3) and most importantly, the student loan debtor is placed back in a positive credit risk role. I recommend this last amendment with great enthusiasm.

And on that note, Mr. Chairman, I would like to close my testimony. Thank you.

Mr. FORD. Thank you very much.

[The prepared statement of James A. Gabler follows:]

PREPARED STATEMENT OF JAMES A. GABLER, DIRECTOR OF GOVERNMENTAL AFFAIRS, VAN RU CREDIT CORPORATION

Mr. Chairman, Members of the Subcommittee on Postsecondary Education, I am Jim Gabler, Director of Governmental Affairs for Van Ru Credit Corporation of Chicago. Van Ru Credit Corporation is a commercial collection agency for the last 32 years located in Chicago, Illinois. Van Ru is the largest for-profit entity committed to reducing student loan defaults and also one of the largest post-default collection agencies serving both the National Direct Student Loan and Guaranteed Student Loan programs.

I personally am very pleased to testify today in that I am fast approaching my 20th year in working with this important program. For 5 years, I worked as a lender, for 12 years I served as Director of Program Operations with the Illinois Guaranteed Student Loan Program and for the last 4 years as Director of Governmental Affairs with Van Ru. I very much appreciate the opportunity to come before you today to discuss the role of collection agencies in the operation of the Guaranteed Student Loan program.

In the last few weeks, the Subcommittee has heard considerable testimony on various proposals to reduce the default rate on GSLs. Among these proposals have been multiple disbursement, copayability and the establishment of a loan consolidation program. I personally believe that all three of these specific proposals will result in a smaller number of loans going into default. In approaching the issue of defaults, however, it is important to recognize that regardless of the administrative improvements we make to the GSL program, there will still be some borrowers whose loans will go into delinquency or default status, such as skips, debtor refuses to pay, public aid, bankruptcy, and total disability cases.

It is in the cases of skips and debtor refuses to pay where the specialized services of Van Ru can make a contribution to reducing default losses in the program, and thereby reduce federal costs. Before I go into a more detailed discussion of student loan collections, however, I would like to emphasize that the GSL program generally does not suffer a disproportionately high default rate. In fact, the cumulative net default rate on loans guaranteed by State Guaranty agencies is currently less than 4.5 percent.

In my comments today, I will be outlining approaches to the collection of GSLs which I believe can prevent a large number of loans from becoming defaults. I want to emphasize, however, that Van Ru Credit Corporation believes that the state guaranty agencies are currently doing a good job in addressing the default problem and that they are contining to implement new approaches and procedures to minimize default losses.

In working with guaranty agencies and other participants in the program, collection agencies seek to apply their specialized skills on accounts on which earlier collection efforts have failed. These earlier efforts are generally made directly by the lender, servicer and by the guaranty agency. All three entities are required under the Higher Education Act to exercise "due diligence preclaim activities" in attempting to cure delinquent loans prior to a claim for federal reinsurance being made.

In practice, the initial effort is usually made by the lender or holder of the loan. As you know, Mr. Chairman, a great number of lenders in the program sell their loans to secondary markets prior to the loans entering repayment status. The holder of the loan generally begins making a collection effort after the loan is 7 to 10 days delinquent. At this point, the greatest problem of the holder is often to simply locate the borrower. In a great number of instances, simply locating the borrower and informing or reminding them of their obligation under the program, will result in default being avoided. Often, for example, the lender or holder has simply not been informed that a loan is still in deferment status.

After 60 to 90 days, the holder will file a preclaim notice with the guaranty agency. At this point, for a period that usually extends up to 120 days delinquency, the guaranty agency will provide pre-claim default prevention assistance to the holder. These efforts generally consist of letters being sent to the borrower and attempts being made to speak to the borrower by telephone. These efforts are usually made in-house, but in some instances will be contracted out to a commercial credit collection agency.

The costs incurred in making the pre-claim collection effort are met by the Administrative Cost Allowance (ACA) and the proceeds of the insurance premiums paid by borrowers on loan origination. The amount of costs incurred in a particular collection effort vary a great deal from agency to agency because of differences in quality of the documents associated with loan, geography and background of the borrowers whose loans were guaranteed.

After 120 days, a guaranty agency may place a loan in default status and file a claim for reinsurance with the federal government. When this occurs, the federal government, out of the Department of Education funds, pays the guaranty agency for the default under the reinsurance program. Last year, the total for such payments was $759 million.

At Van Ru, we have had considerable experience in working with lenders and guaranty agencies on loans in the period between 90 and 210 days after delinquency first occurs. During this period, before which a reinsurance claim is made, we have found that a professional collections effort can prevent many of these delinquent loans from going into default. We call this effort - which is applied to loans after a pre-claim collection has been made - the supplemental pre-claim collections effort.

As a commercial collection agency, we have sought to market our services to guaranty agencies. Several agencies have contracts with us. Other agencies, however, have stated that they simply cannot afford to fund a supplemental pre-claim collection effort out of the funds available to it under the ACA and from insurance premiums.

This shortage of funding for supplemental pre-claim collection is unfortunate for the federal government because I believe that at least 20 percent of the default claims under reinsurance could be avoided. It is also unfortunate for the individual student loan borrowers who go into default, because I know from direct experience that many of these borrowers would not go into default if their loans were subject to one last professional collections effort.

When a student loan goes into default, Mr. Chairman, the government and the individual borrower are both losers. In addition, the public perception of the GSL program - which is so important to maintain public support for student loans - is undermined.

Van Ru Credit Corporation has studied the Higher Education Act in order to find a means of funding supplemental pre-claim assistance without increasing the federal costs associated with the program. I am happy to say, Mr. Chairman, that we have developed such an amendment.

Our amendment would simply allow guaranty agencies to add the costs of supplemental pre-claim assistance to reinsurance claims on those loans on which supplemental pre-claim assistance was provided but did not result in the loan returning to current status. An example would be the loan of a borrower who skipped and was unlocatable by both the lender and guarantor and was subsequently located under supplemental pre-claim assistance and determined to be totally and permanently disabled.

In order to assure that the supplemental pre-claim assistance is truly supplemental to the pre-claim efforts already required under the Act, our amendment would prohibit the holder or servicer of the loan, or an entity (other than the guaranty agency itself) from conducting the supplemental pre-claim effort. It is our hope that under the amendment that the guaranty agency would conduct a vigorous pre-claim collection effort on loans and, if that effort were not successful, would make a supplemental pre-claim effort. We would envision the supplemental pre-claim effort consisting of a fresh set of eyes reviewing the loan folder and perhaps a new approach - different than that used in the pre-claim effort - being used.

Generally, the supplemental pre-claim effort would consist of a professional loan collector conducting skip-tracing and direct communication on the loan. The cost of these efforts generally amounts to no more than $100 or 2 percent of the total amount of loan indebtedness. In order to build cost controls into the supplemental pre-claim collection program, specific cost limitations have been included in the amendment.

The savings to the federal government on supplemental pre-claim are quite significant. Considering that the average default claim is $3,000, the program will provide the government with savings at a rate of approximately 40 to 1. Documentation of this return is available for the Committee's review. A copy of our proposed amendment is attached to my statement.

I am happy to say, Mr. Chairman, that the Congressional Budget Office has estimated that supplemental pre-claim assistance could save the federal government $19 million in the first year of implementation. We estimate on the basis of our actual field experience, that the actual savings could even be higher.

I would now like to turn briefly to a broader discussion of some other possible approaches to reducing default losses in the program. Some of these approaches have been developed by the National Council of Higher Education Loan Programs, others by lenders in the program. In each instance, I believe the adoption of the particular approach could either prevent a loan from going into delinquency or default status or can help in the collection efforts on the loan if it does.

The first suggestion I would like to mention is that the existence of a GSL be reported to a credit bureau at the time it is originated or at the time that it enters repayment. This simple step can help borrowers from being granted credit in excess of the amount justified by the earnings of the borrower.

A second approach would be to simplify the enrollment verification process in order to provide lenders and holders of loans with more timely notification of changes in a borrowers status. This change would facilitate the tracking of a borrower upon the borrower's leaving school.

A third change would be to expand the access of guaranty agencies and lenders to databases such as Social Security and the Internal Revenue Service (IRS). This access could considerably simplify the often difficult task of locating borrowers.

A fourth change is a proposal to "rehabilitate" certain already-defaulted loans. Mr. Chairman and Members, if you remember on the first day of hearings, we had a student by the name of Mr. Lawlor who, despite his best efforts, could find himself in a default situation because of the amount of his student loan indebtedness. I am sure Mr. Lawlor will make good on his loan commitments, but many highly indebted borrowers may not, at least initially. Many of these borrowers will miss four or five payments, during which time the loan will go into default. Afterwards, however, the borrower may resume making payments after the guaranty agency makes a collection effort, either directly or through a collection agency. In these instances, the loans should be eligible for repurchase by a lender or holder and reguaranteed by the guarantee agency. The guarantee agency should also be able to offset all of its expenses up to the 30 percent limit. Under this proposal, all parties are winners. One, the federal government is reimbursed its fair share of the original default cost. Two, the guarantee agency has more incentive to accept monthly payments as versus suing debtors. Three, and most importantly, the student loan debtor is placed back in a positive credit risk role. I recommend this last amendment with great enthusiasm.

On that note, I would like to close my testimony. I would be happy to respond to any questions.

SUPPLEMENTAL PRE-CLAIM COLLECTIONS AMENDMENT

Section 428(c)(1)(A) of the Higher Education Act of 1965 (hereafter referred to as "the Act") is amended by inserting before the period at the end thereof a comma and the following: "including the administrative costs of supplemental pre-claim assistance designed to prevent defaults in accordance with subparagraph (D) of this paragraph".

Section 428(c)(1) of the Act is amended by adding at the end thereof the following new subparagraph:

"(D)(i) For purposes of this paragraph, 'administrative costs for supplemental pre-claim assistance' means, subject to divisions (ii) through (iv), any administrative costs incurred by a guarantee agency in connection with a loan, on which the guarantor has exercised pre-claims assistance required under sections 428(c)(2)(A) and 428(f)(2), which has been in delinquent status for at least 120 days, which are directly related to providing collection assistance to the lender on a delinquent loan, prior to a claim being filed by the guarantee agency, including the attributable compensation of appropriate personnel (and in the case of personnel who perform several functions, only the portion of compensation attributable to the collection assistance), fees paid to locate a missing borrower, postage, equipment, supplies, telephone, and similar charges, but does not include overhead costs.

"(ii) The administrative costs for which reimbursement is authorized under this subparagraph must be clearly supplemental to the preclaim assistance for default prevention which the guarantee agency is required to provide pursuant to section 428(c)(2)(A) and section 428(f)(2) of this Act.

"(iii) The services associated with carrying out this subparagraph may be provided by the guarantee agency directly or under contract provided that such services are not carried out by an organization or entity (other than the guarantee agency) that is the holder or servicer of the loan; or an organization or entity that owns or controls the holder or servicer of the loan; or that is owned or controlled by the same corporation, partnership, association, or individual that owns or controls the holder or servicer of the loan.

"(iv) The costs associated with carrying out this subparagraph may not exceed 2 percent of the outstanding principal balance of each delinquent loan subject to the supplemental pre-claim assistance authorized by this subparagraph or $100, whichever is less.".

Mr. FORD. Mr. Sullivan.

Mr. SULLIVAN. Mr. Chairman and members of the subcommittee, I am A.R. Sullivan, currently serving as chairman of the board of directors of the Association of Independent Colleges and Schools, which I will refer to as AICS or the association in my testimony, and also as the private career school sector representative on the board of directors of the American Council on Education. I have also served in a prior capacity as chairman of the AICS Accrediting Commission. The association appreciates having the opportunity to discuss the important issues of loan defaults and loan collections today.

The Association of Independent Colleges and Schools [AICS] was founded in 1912 and now has a membership of 6,361 diverse business schools and colleges and another 337 branch campuses. Its institutions range from business or specialized schools offering training of up to 1 year in length to junior and senior colleges offering recognized associate, baccalaureate and graduate degrees. Approximately 595,000 students are enrolled in these institutions representing a broad range of income and racial backgrounds.

I currently own and administer three private career schools and colleges in the Commonwealth of Kentucky. Sullivan Junior College of Business provides associate degree training in business and enrolls over 1,800 students. Spencerian College provides short term, specialized business education and medical specialties training and enrolls over 500 students. The third institution, the Louisville Technical Institute, provides concentrated training in engineering, robotics, drafting and interior design, and also enrolls over 500 students.

During the past several years there has been substantial focus on the defaults, perhaps disproportionate to its importance in the overall GSL Program. While I am not advocating, as you shall see later, a hands-off approach to reducing delinquencies and defaults in the Federal student loan programs, it is important to remember the following about these programs:

First, the Guaranteed Student Loan Program has been established as an open access program. Therefore, potential borrowers are not subject to a credit review or check of their general financial creditworthiness unless required by the State agency or local lender.

Second, while aggregate defaults have increased in the past several years, the default rate has decreased slightly during those same years. The national aggregate default rate reported on the guaranteed agency quarterly reports declined slightly, but significantly, from 10.17 percent in fiscal year 1981 to 9.16 percent in fiscal year 1983. Unfortunately, the perception that the actual default rate has gone up substantially is false. The aggregate dollar volume of defaults has increased due to the general increase in loan volume during the past 5 years.

Third, defaults make up less than one-quarter of the total cost to the Federal Government of the GSL Program in fiscal year 1984. Eliminating or reducing defaults is not a panacea for the program and its increasing costs. However, major efforts to reduce defaults would save considerable dollars, have political worth and would remove the characteristics of defaults as being the "Achilles' heel" of the Federal student loan programs.

Now, Mr. Chairman, I would like to make five points about the problems and then cover nine recommendations. I will first make my five major points and briefly discuss them from my own perspective and AICS'.

One, recent studies indicate that there is almost a direct correlation between the socioeconomic status of the student borrower and his family at the time of making the loan and that borrower's propensity to default on the loan at a later date.

Two, institutions serving these low-income students will tend to have higher default rates.

Three, the role of education institutions in reducing defaults or ensuring repayment is limited.

Four, statutory or regulatory standards should not be set on an institutional basis.

Five, GSL's should not be denied students attending specific institutions because of the failure by former student borrowers to repay. Congress should recognize that some default costs are inherent in serving low-income students.

To discuss each of those points individually, on the first point the recent studies indicate that there is a direct correlation between the socioeconomic status of the student and that borrower's propensity to default, there have been numerous studies conducted by independent researchers and State guarantee agencies regarding the ability to forecast repayment behavior of student loan recipients. Although much of this research is inconclusive, one factor consistently predicts a higher propensity to default, and that is the disadvantaged socioeconomic status of the borrower at the time the loan is made.

My purpose in pointing out this last fact is not to criticize students coming from disadvantaged socioeconomic backgrounds. My point is that there are many impediments to repaying a student loan, and these impediments will most likely occur in the life of someone who is less prepared financially, academically and socially to meet the rigors of posthigh school training.

Undoubtedly, the socioeconomic favor may be merely a proxy for other equally important factors, such as racial discrimination in hiring, employment marketability and earnings potential, attitudes toward authority, willingness and ability to anticipate future circumstances, feelings about their educational experience, or other factors. While these factors do not in and of themselves cause defaults or repayment, they will affect the repayment significantly.

My second major point which involved institutions serving these low-income students will tend to have higher default rates, I would like to share that with few exceptions a review of the default rates of educational institutions indicates that those institutions serving large numbers of disadvantaged student populations will have a much higher default rate. Moreover, if one were to look at two types of institutions, such as private career schools and a community college, which attracts students from the same general geographic and socioeconomic area, it is highly likely that those two institutions would have similar default rates.

For example, in the testimony of Mr. Paul Borden, executive director of Kentucky's guarantee agency and secondary market and direct lending agency, given before this subcommittee last week, he presented statistics which indicate and support my contentions made above. I will refer to page 9 of his testimony in which he gave you a chart which said the aggregate default rate as of February 1985 in Kentucky, community colleges, 7 percent; public State vocational-technical schools, 9 percent; State area vocational-technical schools, 8 percent; nonprofit 2-year colleges, 7 percent; proprietary institutions, 8 percent; cosmetology institutions, 10 percent. I think that illustrates the point that typical institutions who might serve the students would have, in a highly regulated environment as we have in Kentucky, similar default percentages.

Thus, Congress is faced with the difficult policy issue of trying to prevent defaults while at the same time ensuring access to those populations which most need some type of skills or academic training. This is a very difficult consideration. Congress should not overlook the fact that some perceived solutions to the default problem, such as the Kentucky regulations on loan defaults, may, in fact, result in a denial of access for those populations.

There is a situation right now which has triggered one of the regulations in Kentucky which, if you have a 10 percent aggregate default rate, the State may require an endorser. If your institution were dealing with an adult population, particularly single females with families, endorsers are probably not available.

The third major point I would like to discuss, which is the role of education institutions in reducing defaults or ensuring repayment, we think that is very limited. AICS contends that it is inappropriate and unjustified to apply a default rate for an educational institution in any Federal Student Loan Program. However, for the sake of discussion today we will assume that such a rate can be applied. We then encourage Congress to look very carefully at what are the real opportunities for an educational institution to reduce that aggregate default rate. We think that you will find, like we have, that these opportunities are quite limited.

The making of a student loan creates a contractual relationship between the financial institution and the borrower. As a legal matter of contract right, the education institution does not have the opportunity to involve itself in the contractual relationship. In fact, this is confirmed in an opinion by the Assistant Attorney General of the State of Michigan in a memorandum, dated August 1, 1983, wherein it is stated that:

> There does not appear to be any correlation between the default rate and the eligibility of that school's students for participation in the Authority's lending program.

This memorandum was written in response to a request of one of AICS' institutions which wanted to purchase the defaulted loans of students who had borrowed these loans to attend the educational institution in question. The conclusion of the assistant attorney general was that since the institution is not an eligible lender under the GSL it was not entitled to acquire GSLs under the terms of an agreement with the Michigan State agency in an effort to reduce its perceived aggregate institutional default rate by this means.

Under our Federal system each of the 50 States may promulgate laws to regulate financial institutions within its jurisdiction to the extent that Congress has not occupied that field. Through the Financial Privacy Act and the Fair Credit Reporting Act, the Federal Government has limited the exchange of financial information on consumers between financial institutions, Federal agencies and private business organizations, respectively.

The fourth major point I would like to discuss is the fact that statutory or regulatory standards should not be set on an institutional basis. This committee and the Congress took action in the Student Loan Consolidation and Technical Amendments Act of 1983 to prevent tax-exempt funds from discriminating against borrowers based on, among other things, their attendance at a particular eligible institution within the area served by the authority. This amendment was a result of considerable discussion and hearings regarding the proposed regulations of the Commonwealth of Kentucky which has imposed additional requirements and eliminated educational and financial institutions from eligibility from participating in the GSL when aggregate institutional default levels reached a certain level. The result of these regulations has been to eliminate from eligibility many students from participating in the GSL program because of the number of defaults of students who borrowed under the program in earlier years. Some of the defaults we are tagged with in Kentucky go back to 1978 and 1979, and there is no forgiveness.

Congress wisely prohibited similar requirements in all States except for Kentucky. I have been intimately involved in the Kentucky situation and the application of their regulations now for almost 2 years. Admittedly and positively, the policy has increased communication between the State agency and the educational institutions and there exists general cooperation to reduce default rates. However, I believe it has also highlighted the recognition that the socioeconomic characteristics of the student body population is the greatest indicator of the propensity to default.

As I shared with you earlier, I own and administer three institutions in the Commonwealth of Kentucky—Sullivan Junior College of Business in Louisville, Spencerian College in Louisville, and the Louisville Technical Institute. In spite of the same administrative control, accreditation, financial aid officer training, and other methods to reduce the default rate, the default rate varies considerably among the three institutions. Sullivan, a suburban institution with primarily recent high school graduates, has $3 million in loans outstanding and a 5.66-percent default rate. Spencerian, an inner city institution with a predominately adult female independent student population, has $2.5 million in loans outstanding and an 11.1-percent default rate. Louisville Technical Institute, a predominately adult male student body, has $1.7 million in loans outstanding and a 7.5-percent default rate. These are cumulative default rates in total. The graduate employment rates for 1984 for these institutions I proudly state are 97 percent, 98.2 percent and 97.4 percent, respectively.

It is my educated judgment that the differences in these default rates can be directly tied to the socioeconomic background of the students attending the three institutions and not in any way to the administrative control and other like factors. In spite of my best efforts, including one of the best student retention programs in the United States, it would be nearly impossible for me to influence the repayment of loans from students who attended Spencerian so that their rates would equal those who attended Sullivan or the Louisville Technical Institute.

My fifth major point, the GSL should not be denied students attending specific institutions because of the failure of former student borrowers to repay, is very important. Congress should recognize that some default costs are inherent in serving low-income students.

Mr. Chairman, we believe that some defaults are effectively predictable and that educational institutions have limited capability to influence the repayment of student loans. We believe, however, that there are changes to law and regulation which could influence their payment that Congress should consider.

I would now like to quickly highlight these recommendations. We propose that the following actions be taken in statute, regulation or informal policy to reduce defaults and increase collections.

One. Increase the ratio of grant and work-study aid as compared to loan aid, particularly in the early years of postsecondary training. This is implicit in our reauthorization recommendations to increase the Pell grant maximum and to allow students attending tax-paying institutions to use College Work-Study Program funds on campus.

Two. Require multiple disbursement of GSL funds to students enrolled in programs of greater than 600 clock hours, two quarters, or one semester. The administrative costs of multiple disbursement in shorter programs do not justify imposing the requirements for those programs.

Three. Require that at the education institution's option loan checks be made copayable to the borrower and the institution, and that the checks be sent to the institution.

Four. Strengthen the loan education and information activities required of financial and educational institutions in order to make borrowers more aware of their obligations and responsibilities as a borrower. AICS at the present time is concerned with the production of a video to be made available to every institution to be played prior to entry and at exit about the obligations.

Five. Require that loan delinquency and default status be communicated to educational institutions by lenders and guarantors. For example, in Kentucky, a monthly printout of loan delinquencies is provided educational institutions, which has proven helpful in alerting the institution to default problems. In my institutions we use it to check to see if defaulters have common characteristics such as taking similar courses, the same admissions officer, similar ages, independent or dependent status, similar withdrawal dates within a program, common lenders, common income levels, and other similar situations. It has been very helpful to us.

Six. Encourage or require the use of credit bureaus as a method to discourage defaults. Informing credit bureaus of the existence of a GSL can have the positive side benefit of establishing a credit history for the student.

Seven. Establish a national data bank on GSL's so that lenders and guarantors are assured that the making of a new loan does not exceed the maximum annual or cumulative amounts for that borrower. Currently, there is no central source of information on who has borrowed how much and when.

Eight. Provide for graduated repayment and consolidation of loans. This recommendation recognizes that it is more difficult to repay in the early years of repayment.

Nine. Support the tax refund offset program proposed by the Department of Education and identify other methods of incorporating loan repayment into other established mechanism. As an illustation, I just learned that the State of Georgia denied the license to practice law to an attorney who had defaulted on the guaranteed student loan among other factors.

AICS would be pleased to discuss any of these recommendations or provide additional information which may be helpful to the subcommittee in fashioning a reauthorization bill. I would like to note in passing that we do endorse the contents of the Coleman bill to enhance loan collections.

In closing, it is essential that Congress understand the factors which cause a student to default and the reasons why one educational institution might have a higher loan default rate than other types of institutions. Federal policy must be based on the realization that the GSL Program is an open access program and that the program's success cannot be evaluated based on other common methods for determining success in the lending area, such as defaults.

I would be happy to respond to any questions you or other members of the subcommittee may have.

Mr. FORD. Thank you.

[The prepared statement of A.R. Sullivan follows:]

Prepared Statement of A.R. Sullivan, Chairman, Board of Directors, Association of Independent College & Schools

ASSOCIATION OF INDEPENDENT COLLEGES & SCHOOLS

The Association of Independent Colleges & Schools (AICS) was founded in 1912 and now has a membership of 636 diverse business schools and colleges and another 337 branch campuses. Its institutions range from business or specialized schools offering training of up to one year in length to junior and senior colleges offering recognized associate, baccalaureate and graduate degrees.

Approximately 595,000 students are enrolled in these institutions, representing a broad range of income and racial backgrounds. Approximately 90% of the AICS-accredited institutions are taxpaying business corporations; all of the institutions are non-public. In common with all non-public institutions, they are either entirely or primarily tuition-dependent for operating revenues.

AICS member institutions are accredited by the Accrediting Commission of the Association of Independent Colleges and Schools. Since 1953, the Accrediting Commission of AICS (formerly known as the Accrediting Commission for Business Schools) has engaged in the evaluation and accreditation of independent colleges and schools. In 1956, the Accrediting Commission was officially designated by the U.S. Commissioner of Education as a nationally recognized accrediting agency. Such recognition has been renewed since that time and now extends through 1985.

Mr. Chairman. Members of the Subcommittee. I am A.R. Sullivan, currently serving as Chairman of the Board of Directors of the Association of Independent Colleges and Schools (AICS or the Association) and as the private career school sector representative on the Board of Directors of the American Council on Education. I have also served in a prior capacity as Chairman of the AICS Accrediting Commission. The Association appreciates having the opportunity to discuss the important issues of loan defaults and loan collections.

I currently own and administer three private career schools and colleges in the Commonwealth of Kentucky. Sullivan Junior College of Business provides associate degree training in business and enrolls over 1800 students. Spencerian College provides short-term specialized business education and medical specialties training and enrolls over 500 students. The Louisville Technical Institute provides concentrated training in engineering, robotics, drafting, and interior design and enrolls over 500 students.

In considering actions to take legislatively to eliminate the default problem, it is very important that Congress have a real picture of what the problem is. During the past several years, there has been substantial focus on the defaults, perhaps disproportionate to its importance in the overall GSL program. While I am not advocating, as you shall see later, a hands-off approach to reducing delinquencies and defaults in the federal student loan programs, it is important to remember the following about these programs:

o The Guaranteed Student Loan program has been established as an open access program. Therefore, potential borrowers are not subject to a credit check or a review of their general financial creditworthiness, unless required by the state agency or local lender.

o While aggregate defaults have increased in the past several years, the default rate has decreased slightly during those same years. The national aggregate default rate reported on the guarantee agency quarterly reports declined slightly, but significantly, from 10.17% in fiscal year 1981 to 9.16% in fiscal year 1983. Unfortunately, the perception that the actual default rate has gone up substantially is false. The aggregate dollar volume of defaults has increased due to the general increase in loan volume during the past five years.

o Defaults make up less than one-quarter of the total cost to the federal government of the GSL program in fiscal year 1984. Eliminating or reducing defaults is not a panacea for the program and its increasing costs. However, major efforts to reduce defaults would save considerable dollars, have political worth and would remove the characterization of defaults as being the "Achilles' heel" of the federal student loan programs.

RECENT STUDIES INDICATE THAT THERE IS ALMOST A DIRECT CORRELATION BETWEEN THE SOCIOECONOMIC STATUS OF THE STUDENT BORROWER AND HIS FAMILY AT THE TIME OF MAKING THE LOAN AND THAT BORROWER'S PROPENSITY TO DEFAULT ON THE LOAN AT A LATER DATE.

There have been numerous studies conducted by independent researchers and state guarantee agencies regarding the ability to forecast repayment behavior of student loan recipients. Although much of this research is inconclusive, one factor consistently predicts a high propensity to default -- the disadvantaged socioeconomic status of the borrower at the time the loan is made.

My purpose in pointing out this last fact is not to criticize students coming from disadvantaged socioeconomic backgrounds. My point is that there are many impediments to repaying a student loan and these impediments are more likely to occur in the life of someone who is less prepared financially, academically and socially to meet the rigors of post-high school training. Undoubtedly, the socioeconomic factor may be merely a proxy for other equally important factors, such as racial discrimination in hiring, employment marketability and earnings potential, attitudes towards authority, willingness and ability to anticipate future circumstances, feelings about their educational experiences, or other factors. While these factors do not in and of themselves cause defaults or repayment, they will affect the repayment significantly.

INSTITUTIONS SERVING THESE LOW-INCOME STUDENTS WILL TEND TO HAVE HIGHER DEFAULT RATES.

With few exceptions, a review of the "default rates" of educational institutions indicates that those institutions serving large numbers of disadvantaged student populations will have a much higher default rate. Moreover, if one were to look at two types of institutions, such as a private career school and a community college, which attracts students from the same general geographic and socioeconomic area, it is highly likely that those two institutions would have similar default rates. For example, in the testimony of Mr. Paul Borden, executive director of Kentucky's guarantee agency and secondary market and direct lending agency, given before the Subcommittee last week, he presented statistics which indicate and support my contention made above.

Thus, Congress is faced with the difficult policy issue of trying to prevent defaults while at the same time ensuring access to those populations which most need some type of skills or academic training. This is a very difficult consideration. Congress should not overlook the fact that some perceived solutions to the default problem, such as the Kentucky regulations on loan defaults, may in fact result in a denial of access for these populations.

THE ROLE OF EDUCATION INSTITUTIONS IN REDUCING DEFAULTS OR ENSURING REPAYMENT IS LIMITED.

AICS contends that it is inappropriate and unjustified to apply a "default rate" for an educational institution in any federal student loan program. However, for the sake of discussion this morning, we will assume that such a rate can be applied. We then encourage Congress to look very carefully at what are the real opportunities for an educational institution to reduce that "aggregate default rate." We think that you will find, like we have, that those opportunities are quite limited.

The making of a student loan creates a contractual relationship between the financial institution and the borrower. As a legal matter of contract right, the education institution does not have the opportunity to involve itself in that contractual relationship. In fact, this is confirmed in an opinion by the Assistant Attorney General of the State of Michigan in a memorandum, dated August 1, 1983, wherein it is stated that:

> "There does not appear to be any correlation between the default rate and the eligibility of that school's students for participation in the Authority's lending program."

This memorandum was written in response to a request by one of AICS' institutions which wanted to purchase the defaulted loans of students who had borrowed these loans to attend the education institution in question. The conclusion of the Assistant Attorney General was that, since the institution is not an eligible lender under the GSL, it was not entitled to acquire GSLs under the terms of an agreement with the Michigan state agency in an effort to reduce its perceived "aggregate institutional default rate" by this means.

However, Temple University intends to pay off delinquent federally-funded Health Professions Student Loans (HPSL) in order to comply with federal standards that require a school borrowing low-interest HPSLs to reduce its loan delinquency rate by 5% by the end of this month or be banned from lending the loans. It should be remembered, though, that the HPSL program is an institutionally-based program similar to the NDSL program. The State of Michigan and Temple University examples highlight the distinction between the two programs and the fact that educational institutions have very little opportunity to formally and directly impact the default rate of its students in the GSL program.

Under our federal system, each of the fifty states may promulgate laws to regulate financial institutions within its jurisdiction to the extent that Congress has not "occupied the field." Through the Financial Privacy Act and the Fair Credit Reporting Act, the federal government has limited the exchange of financial information on consumers between financial institutions, federal agencies and private business organizations respectively.

State laws regulate financial privacy through state constitutions restricting disclosure of financial information to private business organizations; through their common law; and through statutory/regulatory provisions. Thus, lenders are limited in what they can provide education institutions to assist in the collections process. Moreover, even if lenders were allowed to disclose such information, it is unlikely that there would be major disclosures of information to education institutions or that these institutions could do anything with the information even if it were disclosed.

STATUTORY OR REGULATORY STANDARDS SHOULD NOT BE SET ON AN INSTITUTIONAL BASIS.

This Committee and the Congress took action in the Student Loan Consolidation and Technical Amendments Act of 1983 to prevent tax-exempt funds from discriminating against borrowers based on, among other things, their attendance at a particular eligible institution within the area served by the authority. This amendment was a result of considerable discussion and hearings regarding the proposed regulations in the Commonwealth of Kentucky which has imposed additional requirements and eliminated educational and financial institutions from eligibility from participating in the GSLP when aggregate "institutional default" levels reached a certain level. The result of these regulations has been to eliminate from eligibility many students from participating in the GSL program because of the number of defaults of students who borrowed under the program in earlier years.

Congress wisely prohibited similar requirements in all states, except for Kentucky. I have been intimately involved in the Kentucky situation and the application of their regulations now for almost two years. Admittedly and positively, the policy has increased communication between the state agency and the educational institutions and there exists general cooperation to reduce default rates. However, I believe it also has highlighted the recognition that the socioeconomic characteristics of the student body population is the greatest indicator of the propensity to default.

I own and administer three institutions in the Commonwealth of Kentucky — Sullivan Junior College of Business, Spencerian College, and the Louisville Technical Institute. In spite of the same or similar administration control, accreditation, financial aid officer training, and other methods to reduce the default rate, the default rate varies considerably among the three institutions. Sullivan, a suburban institution with primarily recent high school graduates, has $3 million in loans outstanding, and a 5.66% default rate. Spencerian, an inner city institution with a predominately adult female independent student population, has $2.5 million in loans outstanding, and a 11.1% default rate. Louisville Technical Institute, a predominately adult male student body, has $1.7 million in loans outstanding and a 7.5% default rate. The graduate employment rates for 1984 for these institutions are 97%, 98.2% and 97.4% respectively.

It is my educated judgment that the difference in these default rates can be directly tied to the socioeconomic background of the students attending the three institutions and not, in any way to the administrative control and other like factors. In spite of my best efforts, it would be nearly impossible for me to influence the repayment of loans from students who attended Spencerian so that their rates would equal those who attended Sullivan or Louisville Technical Institute.

GSLs SHOULD NOT BE DENIED STUDENTS ATTENDING SPECIFIC INSTITUTIONS BECAUSE OF THE FAILURE BY FORMER STUDENT BORROWERS TO REPAY. CONGRESS SHOULD RECOGNIZE THAT SOME DEFAULT COSTS ARE INHERENT IN SERVING LOW-INCOME STUDENTS.

Mr. Chairman, we believe that some defaults are effectively predictable and that educational institutions have limited capability to influence the repayment of student loans. We believe, however, that there are changes to law and regulation which could influence their payment that Congress should consider. I would like now to highlight those recommendations.

WE PROPOSE THAT THE FOLLOWING ACTIONS BE TAKEN IN STATUTE, REGULATION OR INFORMAL POLICY TO REDUCE DEFAULTS AND INCREASE COLLECTIONS.

1. Increase the ratio of grant and work-study aid as compared to loan aid, particularly in the early years of postsecondary training. This is implicit in our reauthorization recommendations to increase the Pell Grant maximum and to allow students attending taxpaying institutions to use College Work-Study funds on campus.

2. Require multiple disbursement of GSL funds to students enrolled in programs of greater than 600 clock hours, two quarters, or one semester. The administrative costs of multiple disbursement in shorter programs do not justify imposing the requirement for those programs.

3. Require that, at the education institution's option, loan checks be made copayable to the borrower and the institution, and that the checks be sent to the institution.

4. Strengthen the loan education and information activities required of financial and education institutions in order to make borrowers more aware of their obligations and responsibilities as a borrower.

5. Require that loan delinquency and default status be communicated to education institutions by lenders and guarantors. For example, in Kentucky, a monthly print-out of loan delinquencies is provided education institutions which has proven helpful in alerting the institution to default problems.

6. Encourage or require the use of credit bureaus as a method to discourage defaults. Informing credit bureaus of the existence of a GSL can have the positive side benefit of establishing a credit history for a student.

7. Establish a national databank on GSLs so that lenders and guarantors are assured that the making of a new loan does not exceed the

maximum annual or cumulative amounts for that borrower. Currently, there is no central source of information on who has borrowed how much and when.

8. Provide for graduated repayment and consolidation of loans. This recommendation recognizes that it is more difficult to repay in the early years of repayment.

9. Support the tax refund offset program proposed by the Department of Education and identify other methods of incorporating loan repayment into other established mechanisms. The mere existence of these programs has a positive impact on student loan repayment.

AICS would be pleased to discuss any of these recommendations or provide additional information which may be helpful to the Subcommittee in fashioning a reauthorization bill. I would like to note in passing that we do endorse the contents of the Coleman bill to enhance loan collections.

Recently, Dr. Alice Rivlin, former head of the Congressional Budget Office, suggested that education in this country should be restructured to make it more adaptable to changing skill and work patterns. She encouraged that the emphasis on a general education leading to a final degree should be abandoned and that each part of learning — reading, writing and computing — should be broken into small bites. People could then move in and out of the education system as their job needs progress, earning certificates of competency at each step.

This is in fact what many of AICS' institutions do right now. While many students still prefer the traditional school for its continuity and companionship, economic reality and job skills needs will continue to compell a large segment of our population to attend vocational and career institutions which provide concentrated job skills training. I would like to suggest today that Congress be careful in reauthorization to avoid precluding such life-long education.

In closing, it is essential that Congress understand the factors which cause a student to default and the reasons why one educational institution may have a higher loan default rate than other types of institutions. Federal policy must be based on the realization that the GSL program is an open access program and that the program's success cannot be evaluated based on other common methods for determining success in the lending area, such as defaults.

I would be happy to respond to any questions you or other members of the Subcommittee may have.

Mr. **Ford**. I note with some interest how your testimony complements Dr. Breneman's observation about the over-reliance by the lower income student on Guaranteed Student Loans, a factor that we have been watching for sometime, helplessly it seems.

Mr. Coleman.

Mr. **Coleman**. Dr. Breneman, as a school administrator, could you tell us what you feel we could change the laws anywhere to make your institutions accessibility or cooperation with guarantee agencies or lenders better than what it is today? Do you think that the institution should play more of a vital role in supplying information, or even assisting in collection efforts on GSL?

Mr. **Breneman**. Again here I should make it clear I am speaking just for myself and not for the association. I don't know—this isn't something I rehearsed my comments on, but I can say that from our standpoint as an institution we would be very eager to cooperate and work more closely within the collection effort on GSL's than apparently a number of institutions have to date.

There is nothing, in fact, the number of proposals that have come forth today from your bill and testimony linkages with credit agencies—reporting loans to a credit agency, for example—I have long thought that was an obvious thing. That if we are going to teach students that they are genuinely undertaking debt, and I think, you know, that one of the problems we got into, I think, in the early days in some of these loan programs is that I think a lot of the institutions were almost wishy-washy on that. There was a tendency in some cases not to be as clear and precise in counseling the students as to what they were getting into.

I think if we link in and make this be viewed by the students as a debt in the same sense that an automobile loan is a debt, that a mortgage is a debt, the society views the proper payment of these debts as an obligation of citizenship and that there are systems in place for seeing that this is done, I can't imagine that any of our institutions would in any way be unwilling to cooperate as fully as we can.

Mr. **Coleman**. Do you feel that you are restricted by existing privacy laws to provide some information? Is this done informally? It almost seems like there is a lot of things done informally through these offices. I don't know if anybody has gotten sued yet or not.

Mr. **Breneman**. I don't know the answer to that. I am not aware of the privacy laws restricting us, but to the extent they do, then we obviously have a conflict of two good objectives.

Mr. **Coleman**. It has been suggested that perhaps a letter from the institution might mean more to a former student than a letter from a lending institution that they may not have even had any dealings with.

Mr. **Breneman**. Right.

Mr. **Coleman**. Some have said, just the opposite; maybe they are not too happy with their experience at the educational institution it would not have the desired effect. What would your thoughts be about that? I would think that those who went on to graduate school would feel more closeness to your institution than those who did not complete their course work?

Mr. **Breneman**. Well, I think the best evidence of what our behavior could be under circumstances like this is the way we deal with NDSL loans that are in default, where we are more directly involved than we have been with GSL's. Of course, we know we are dealing with alumni, even alumni in some cases who have enrolled but not graduated, but that doesn't alter our generally businesslike attitude toward such individuals.

In NDSL, we go through a whole series of internal mechanisms as an institution initially, and then at some point when all has failed, we do turn them over to, in our case, private collection agencies. We try to serve a kind of intermediary role and keep in contact. As I say, never a month goes by but what I get an agonized letter. Interestingly enough, it is often from a parent. In some cases even when the student is in his mid- to upper 20's, where the parent has gotten into the act after the student may have discussed this at home with the family.

But as I have indicated in my testimony, we will simply, in the NDSL program, not release transcripts, which, as I indicated, is the one honest to God penalty or club that we have over students.

Mr. **Coleman**. Can that be done with GSL's, do you think?

Mr. **Breneman**. I don't know. It is an interesting question. I don't know why we couldn't. I don't know whether we are asked to. Just to be honest, I don't know whether the process of GSL collection, if it gets into default, ever circles back. In other words, if a student is in default on a GSL and then asks us for a transcript, to be honest with you, I don't know whether we know that fact.

Mr. **Coleman**. And maybe you should or could?

Mr. **Breneman**. If we don't, I think we should. I think that our relationship with our students and former students and graduates is going to be better, even if they are in some difficulty, if we know what the situation is than if we only have partial information and if we are not getting a systematic report of their loan status. As I say, to the extent that we are drawing 17- and 18-year-old young people into debt levels that are probably as high as any they will incur short of a home purchase, I think as an institution we have a very strong obligation not to do things to entrap them or endanger them, and then to work with them as cooperatively as we can but with a very firm view.

Mr. **Coleman**. I am glad to see this attitude displayed. I hope this also is an attitude that your association would display, too. Many people say, "Well, we weren't part of that contractual arrangement with the student, and therefore we don't want to get involved with any collection efforts." But, in fact, you are a third-party beneficiary to this whole process.

Mr. Gabler, first of all, thank you for your very good statement and for making some specific recommendations—which you and Mr. Sullivan both did.

Let me ask you, on page 6 where you suggest, and I want to make sure that I was reading it right. Are you suggesting a credit-worthiness test for GSL borrowers, or were you saying something else there?

Mr. **Gabler**. I certainly was not suggesting a credit test.

Mr. **Coleman**. What was your first suggestion?

Mr. **Gabler**. That the opportunity for the guarantee agency or the lender and what I feel is in the best long-term interest of the student to list that debt on a credit bureau so that the opportunity for another creditor who is taking a look at issuing credit to that student is aware that the student has a $20,000 total debt.

Mr. **Coleman**. I see. Not to an institution.

Would that information be released to an institution, or they don't care? I mean, unless the law was changed?

Mr. **Gabler**. I am not sure, Congressman.

Mr. **Coleman**. Do you feel that there is sufficient incentive now for guarantee agencies to engage in intensive collection efforts and to collect all that they can?

Mr. **Gabler**. Yes; I certainly do. And I believe the guarantee agencies are doing an excellent job. In my recommendation of the amendment I would probably quote your State, Congressman, who has done just an excellent job. We have just concluded a pilot program under this pilot program, or the amendment that was suggested in here. And under the pilot program we were able to further reduce the defaults in the State of Missouri by 30 percent.

Mr. **Coleman**. Could you provide me some more information about that program?

Mr. **Gabler**. I would be delighted to, Congressman.

Van Ru Credit Corp.

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DR. WILLIAM E. EHRICH
Associate Director,
Student Loan Division

July 26, 1985

Honorable E. Thomas Coleman
United States House of Representatives
2344 Rayburn Office Building
Washington, D.C. 20515

Dear Mr. Coleman:

This letter is in response to your question at the June 19th hearing before the Subcommittee on Postsecondary Education regarding Van Ru Credit Corporation's work in reducing student loan defaults. As I promised, I am enclosing a copy of a letter from Mr. John Wild, Executive Director of the Missouri Higher Education Loan Authority (MoHELA) on this subject.

Mr. Wild administers one of the best run secondary markets in the country. As you can see from his letter, the assistance provided to MoHELA resulted in a reduction in default losses of over 30 percent. Van Ru has achieved similar results repeatedly in work with other secondary markets, commercial lenders and guarantee agencies.

It was with the MoHELA and similar experiences in mind that I made the statement at the June 19th hearing that "student loan default losses can be reduced by 25 percent nationally with the support/encouragement of the Congress, the Department of Education and the Office of Management and Budget." All that is needed is the enactment of a legislative amendment to provide guarantee agencies the mechanism they need to enhance their default reduction programs. As you know, Van Ru has recommended such an amendment, which was attached to my testimony of June 19th.

July 26, 1985
Honorable E. Thomas Coleman
United States House of Representatives
Page 2

I very much appreciated your interest in the problem of reducing default losses in the Guaranteed Student Loan Program. If I can be of any additional assistance to you or your staff, please do not hesitate to contact me.

Sincerely,

James A. Gabler
Director
Governmental Affairs

JAG/smr

Enclosure

cc Honorary William D. Ford
Tom Wolanin - Staff Director
Rich DiEugenio - Committee Staff Director
Rose DiNapoli - Staff Director - Rep. Coleman
Dr. Judy Vickery - State of Missouri
Jean Frohlicher - NCHELP
John Wild - Missouri Secondary Market

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
1215 Fern Ridge Parkway, Suite 208
Saint Louis, Missouri 63141
314/469-0600

June 28, 1985

Jim Gebler
Director, Gov. Affairs
Van Ru Credit Corporation
6141 North Cicero Ave.
Chicago, Il. 60646

Dear Jim,

Thank you for your call last week. I was pleased you were able to testify before Representative Coleman.

We have found in our experience with the Van Ru Credit Corporation that in the sample case that was tested last Summer, that we had a resolved rate in the low 30% range. Based on this example, we would be more inclined to repeat this procedure, if the law governing the charges incurred by Missouri Higher Education Loan Authority could be changed. Our relative youth as an organization currently limits the amount that we have to spend for these services. Any further questions that you might have regarding this test case or future considerations may be directed to myself at the above address.

I am sorry that it has taken me several days to respond to our conversation, but the temporary limitations of one arm has slowed me down. Broken wrists ultimately heal, however.

Respectfully yours,

John Wild
Exec. Director

Mr. Coleman. This is the first I have heard of it. We had Sheila Aery before us and I don't recall that she mentioned that.

Mr. Gabler. This would be with Mr. Wild and your secondary market in the State of Missouri. It was Mr. Wild who undertook the program on a pilot basis to experiment with the numbers and to see what it really meant in dollars and cents.

Mr. Coleman. It means something to them in dollars and cents. I mean, that is the incentive——

Mr. Gabler. It means something to the Federal Government, I believe.

Mr. Coleman. I understand that, but their incentive to pursue these collections.

Mr. Gabler. That is absolutely correct. He wants to have the best default rate in the country if he possibly can.

Mr. Coleman. You heard Mr. Sullivan's testimony. He felt that through the Privacy Act and fair credit reporting, et cetera, on the Federal level and State regulations, lenders are limited in what information they can provide education institutions to assist in the collection process. Moreover, he explained, even if lenders were allowed to disclose this information it is unlikely that there would be major disclosures of information to educational institutions that they could do anything about.

Do you agree with that statement?

Mr. Gabler. I would have to refamiliarize myself with the Buckley amendments. I believe under the confidentiality clauses that there are certain controls on the type of information that can be released.

Mr. Coleman. Let us assume we eliminated any controls through legislation, that Chairman Ford, who is a master at legislation, could just waive a wand and eliminate any restrictions.

What do you think the situation would be?

Mr. Gabler. I believe the more information that can be disclosed to all parties who are in a situation of trying to collect the debt and to keep the student from going into a default situation, that a team approach and everybody working together is beneficial to all.

Mr. Coleman. Mr. Sullivan, I didn't want to put words in your mouth. Did I? Do you feel that if we had no restrictions that it still wouldn't make any difference? I mean is that the basic thrust of that comment?

Mr. Sullivan. Not totally. I think efforts of all our means will help reduce defaults. I think the preprogram he spoke to, to make the borrower alert that the default is imminent, would help. I think sharing of information such as addresses.

I am reminded of a story I heard a few years ago of a national collector who notified his school of defaults and in the list of names was Mary Smith. And they said they couldn't find her through skip tracing or all other methods involved. The school called back and said: If you will check on extension 319, she works on the floor just below you.

So the sharing of information I think could help defaults.

In Kentucky, all we get is the name of the student, the amount they owe, the amount they are delinquent; but no address information and nothing else to help us help the State collect in the process. We are at a loss to help them. Anyway, we have not been requested to help them other than the sharing of information.

It is very frustrating to get this and see an amount about to become defaulted and be helpless, and really not knowing how far to go. So I am not sure if we went that far we would help that much. I still would go back to my basic statement that it might be the socioeconomic level of the student who obtains the loan, who is forced to obtain a loan to attend the school they want to attend, that might affect their overall repayment.

Mr. COLEMAN. Well, I guess the question, then, really on the whole philosophical question, is what rate is acceptable to the Federal Government, to the Congress, notwithstanding an individual's socioeconomic standing?

Mr. SULLIVAN. That is a good question.

Mr. COLEMAN. Your feelings are that it is relevant, or should we not care about it?

Mr. SULLIVAN. No. I think we should care much. Because I think there is the political ramifications and others if a rate becomes too high. But as I said in my statement, there is a cost involved and if we are going to force these students to have to obtain loans because grants and other funds are not available to them—when you ask a student with no income or up to $5,000 to $10,000 to assume a loan and that student may not have the background or the understanding of debt or other means, and if their experience is good or bad at the institution, they may not understand repayment as we would understand it with a debt that high. That is not true of everyone, but I think it is a problem that we have to deal with, and it is going to continue with us.

Mr. COLEMAN. Mr. Chairman, I don't want to go on too much, I have one or two questions more.

You suggested increased ratio of grant and work-study to loan, what was your maximum grant award under that type of suggestion? Do you have one?

Mr. SULLIVAN. I believe we are suggesting $3,000.

Mr. COLEMAN. $3,000?

Mr. SULLIVAN. $3,000 would be the grant.

Mr. COLEMAN. I asked questions earlier of the GAO regarding the report that was made on proprietary schools as it relates to Pell grants. Would you want to comment on the questions that I raised regarding GSL's and proprietary schools, and whether or not any of the questions and the issues that were raised on Pell Grants are applicable to GSL's. What your association's position is on this? Do the questions that have been raised touch on the accreditation issue as well?

Mr. SULLIVAN. I am not sure I can speak for the association's position. I will speak on my own personal feelings. I wasn't really thrilled with the GAO report's statistical base, methodology, approach, data base, or anything else. We have attempted for the last 6 months to obtain information from the GAO on their methods, and we have not received one response. They are not covered by freedom of information directly, but they are covered quasi. We have not had a response to several efforts to obtain—just to find out how they did it. So until we know what they did and how they did it, we are not sure their findings are correct.

We certainly don't think they are representative of proprietary career schools in general. They may have found this in this very tiny, small sample, but we are at a loss to determine what.

I heard him say, and I think I will quote him: "You would find almost the same problems with GSL's in proprietary schools." And again, I am not certain that statistically he could support that. That had to be his own personal, throw-it-up-in-the-wind understanding since he hadn't studied it. I don't like to see a statistician make those kinds of comments because they are not based on any fact.

I am not sure you would, and yet you might find some problems. And I don't think we would disagree that there are not schools in all sectors that have problems in management of Pell programs and GSL programs, and the accrediting agencies and the Federal Government and everyone should work to eliminate these people from the program, get them to correct the abuses to be eligible to remain in the program or to raise the level of accreditation to cover these types of problems. We shouldn't tolerate them.

Mr. COLEMAN. Well, I thank you. I believe the key is a strong system. It protects the good schools, protects the Government, protects the lenders, and the students. I would call on you as a leader of your association to ensure that that type of accreditation is required and demanded.

Mr. SULLIVAN. Just a side comment. The association and the accrediting agency are two separate bodies.

Mr. COLEMAN. I understand. But you are a leader in the field.

Mr. SULLIVAN. And I was formerly Chairman of that Commission. I believe AICS is working diligently to raise its standards as they relate to these problems. We do have a continuing problem of communication with the Department of Education and the accrediting agency of sharing of documents, and we are hoping that information can be shared as both parties find problems as they do their reviews.

Mr. COLEMAN. It is my understanding, Mr. Chairman, that we do have a day set aside for accreditation issues, don't we? I thought I saw that in your schedule. If not, we might want to touch on it sometime during this process.

I thank all three of you.

Mr. FORD. You can if you want to.

Mr. COLEMAN. I know that we did some last year, but I think maybe, because some of the issues in this particular bill, we might do that.

Mr. FORD. I should tell you that John Buchanan and I tried that—

Mr. COLEMAN. That was 2 years ago.

Mr. FORD. [continuing]. Several years ago and the sky fell on us. When you start talking about accreditation you get every kind of institution upset because everybody wants to do the accreditation and nobody wants the Government telling them how to do it.

Mr. COLEMAN. I think we have moved into some reissue areas since then.

Mr. FORD. We have what is almost a fraud in place now that the Carter administration tried to remove. John and I were persuaded to try for them, but we didn't get anyplace. That is, that the accrediting of the institutions is theoretically accredited by the Department, but the Department doesn't really do any accrediting; it just says if you come up with a way to do it, fine. And even though it doesn't really do anything, all of the different kinds of institutions just fight like the devil against it getting into that kind of an issue.

Mr. Coleman asked this morning what is the acceptable level of default. There really shouldn't be an acceptable level of default. However, as I was sitting here listening to it this morning, I recalled that in this room, in the 1960's, when unemployment got up to 6 percent, we were passing job training and education and retraining bills, and job creation bills, like they were going out of style. And we were talking at great length with people about the hardcore unemployed and the fact we had to train some people, with programs like Job Corps and the others, who had been missed by the system. A couple of years ago when unemployment was above 10 percent, the Congress was apparently persuaded that was an acceptable level of unemployment because we began dismantling all of those programs, and we have very greatly diminished the Federal Government's role in job generation.

So, at whatever time in the future you ask the question, Tom, you are going to get the answer that is floating on the wind at that time. In 1978, we would have said a default rate of 5 percent would be clearly acceptable because we were looking at what it was then. Now, that we are where we are, we can't say that is acceptable; we have to try to reduce it even further. I don't think there is any disagreement on that.

Dr. Breneman, it occurred to me when you were trying to respond to Mr. Coleman's question about whether or not you can do with the GSL defaults what you do with the NDSL defaults that there is a very distinct difference. You make the NDSL loan and you are, theoretically, using the money out of your revolving fund. So like any money you would lend out of the institution, you would have the right to withhold transcripts, withhold advancement, or any other thing that you want to do administratively. When you get to the Guaranteed Student Loan, the institution has no similar role because it is somebody else's capital that has been loaned to the student and the institution doesn't have a financial interest that it has a right to protect. And I suspect that particularly if you tried to hold up somebody who was about to go into law school, that you would be in court very quickly, if you tried to hold them up with a GSL, because you wouldn't have standing to do that. Maybe that is the reason it isn't done.

Mr. **Breneman**. That is undoubtedly a fair point. I mean, obviously, if we are successful in getting repayment in NDSL, that is money we turn right around and reloan.

Mr. **Ford**. But there is something that has come to my attention here this morning, and that is, I asked counsel what is the obligation on the institution? When do they notify the guarantee agency or the lender that the status of the student has changed? And we took a quick look and there is no requirement in the law that you notify them. There is a requirement that the student notify the lender: I am quitting school and leaving. But how would you gentlemen react if we expanded that and put some kind of a requirement on the institution that said as promptly as feasible after discovery of a change in a student's circumstances that would affect their status you will notify the lender and/or the guarantee agency?

In other words, if the student comes in and says, I am withdrawing, give me back my student fees, and so on, at that point, it would put a requirement on you to notify the outstanding creditors?

Mr. **Breneman**. Well, just off the top of my head, again my view is that even though you are right there is a distinction between NDSL and GSL, that we in a sense don't have standing in the relationship directly between a student and a bank or a guarantee agency. I, for one, feel that this whole system is in place to serve students and indirectly to serve the institutions. And if we are currently not expected to notify relevant agencies when a student withdraws, I, for one, would be willing to do that. I am not looking for more paperwork, and I am sure my student aid office would kill me if they heard me say this, but if that became a piece that made a meaningful difference in reducing default rates and preserving the system as it stands, I think we would be more than willing to comply with it.

Mr. **Ford**. That must have been the right answer because I don't see a Washington representative cutting his throat back there.

Did you want to comment on that?

Mr. **Gabler**. Just a thought, Mr. Chairman. I have seen situations of being on the back end of the problem where that particular system of notification would have saved many students from default. A live example of that is, a student who transfers from one school to another is eligible for a deferment, and because of the lack of communications between the two institutions back to the guarantor, we find a student in technical default where it could have been corrected at a very early stage in the delinquency cycle, but we don't find out about it until 2 years later when it is sitting in a very serious default status. And again I address that type of an example to the rehabilitated types of loans.

And in the case where we find out about it 2 years later and the student has made 6 monthly payments, one right after another, that is again where I feel that in the best interest of students, let us find a way to get them out of that default status and put them back with the commercial lenders.

Mr. **Breneman**. I second that. We were a party to an incident of exactly that sort where a student had gone on to graduate school. Somehow that fact hadn't been communicated adequately to one of the agencies involved. They were dunning him for payments, and he was writing them and saying I am not eligible. But there was a communication slipup, and it got very involved, far more than it needed to be.

Mr. **Ford**. Did you want to say anything about that?

Mr. **Sullivan**. Oh, I agree. I know when we have situations where students withdraw. On their refunds due, of course, to the banks, we make those within a 30-day period after withdrawal. But I think the system could be improved.

I think institutions wouldn't object at all. The whole process is to assist. And I think if legally and otherwise, the moral obligation and the ethical obligation to assist, the process of the loan going into repayment and being repaid would be supported by most institutions.

Mr. **Ford**. I would think that just from my own experience when a student for whatever reason decides that they can't go on or don't want to go on that notifying the lender that they have done that is very low on the list of things they think are important at that moment. And now we have two associations, if I understand it, on record saying that they wouldn't find such a requirement on the institutions that they represent to be overly burdensome, if properly crafted, of course. We will have to get the rest of them on the line with you.

Nobody suggested that in the volumes of suggestions we have, but we are looking for anything that will profit these hearings, that gives us one more way to possibly reduce the potential of default; and that one has sort of an instant appeal to me. Somebody here in the audience before I leave today will explain to me why it can't be done.

Mr. **Breneman**. I think another desirable feature of it is that to the extent there is any temptation anywhere in the system of higher education to encourage students to borrow to attend in ways that are not wise, I think the fact that you put a burden on an institution to take in a sense a type of responsibility for that debt, just to the extent of informing the lender that now that student is no longer enrolled, that is a very desirable thing to do.

Mr. **Ford**. Thank you very much, gentlemen, and thank you for your assistance to the committee.

Dr. Jerry Davis, director of research, Pennsylvania Higher Education Association, and Mr. Richard Innocenzi, director, New Jersey Higher Education Assistance Authority.

And I apologize to you, gentlemen, for having you here so long. The hearings got much more interesting for the members and for me than we expected them to be this morning, very frankly, and that is why we drag on a little bit.

Mr. **Coleman**. Mr. Chairman, could I, if I might, explain the absence of Mrs. Roukema, of New Jersey. She wanted to be here to welcome Mr. Innocenzi. She has a bill before another committee, and she wanted me to express to you, first of all, her welcome and to tell you that she will receive copies of your testimony and will look at it very closely. She appreciates your being here, and she apologizes for her inability to attend this morning.

Mr. **Innocenzi**. Thank you, sir.

Mr. **Ford**. Without objection, your prepared statements that I have before me will be inserted in the record immediately before your comments. You may proceed, Mr. Davis.

Mr. **Davis**. We had agreed that Mr. Innocenzi would go first, if that is all right with you, sir.

Mr. **Ford**. All right, Mr. Innocenzi is first.

STATEMENTS OF JERRY SHEEHAN DAVIS, PH.D., DIRECTOR OF RESEARCH AND POLICY ANALYSIS, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY; AND RICHARD J. INNOCENZI, DIRECTOR, NEW JERSEY HIGHER EDUCATION ASSISTANCE AUTHORITY

Mr. **INNOCENZI**. Mr. Chairman and members of the subcommittee, my name is Richard Innocenzi and I am director of the Guaranteed Student Loan and PLUS programs in New Jersey. I have been affiliated with the program for 19 years, serving as its director since 1980.

I am pleased to have been invited to testify before this subcommittee, or rather this committee, on a topic of concern to Congress, guarantors, lenders, postsecondary institutions, and above all, taxpayers. I allude to the issue of default avoidance and default collection.

I have had the honor of chairing a task force for the National Council of Higher Education Loan Programs in 1984 to study ways and means of avoiding or minimizing the probability of defaulted loans and/or the improvement of collections once the loan is defaulted. Many of the recommendations contained in that report do not require legislative change, but rather a strengthening of procedures by agencies, or lenders, or schools, if defaulted loans are to be reduced.

Some examples of these were (a) to obtain a credit check where applicable; (b) more adequate counseling in debt management; (c) to provide the borrower with an updated accounting of outstanding debt; (d) to improve the effectiveness of the exit interview with the student borrower; (e) to encourage an entrance interview; and (f) work more closely with grant programs to be sure that students, especially first-year students, are aware of grant aid, since this is the cohort most susceptible to high default rates.

I am pleased to report that many States, including my own State of New Jersey, have endorsed and in fact implemented many of these concepts in recent months. We remain optimistic that these efforts will bear fruit in the near future indicated by a downward trend in defaulted loan activity.

There were many other valid recommendations contained in that report that could be very effective, but would require legislative change to the existing law. I would like to share some of these recommendations for your consideration during the reauthorization process in order that we may make a good program even better. I submit 11 recommendations adopted by the National Council of Higher Education Loan Programs that will buttress the Guaranteed Student Loan Program in the area of reducing defaulted loans if Federal legislation is modified.

The first one is the reporting of GSL's to credit bureaus at the time the loan is disbursed. We have heard much dialog this morning about the merit of reporting GSL's to credit bureaus, which is not unusual. But what is unusual is the timing involved, and the task force is recommending that that time be at the time of disbursement.

Currently, only a limited number of lenders report GSL's to credit bureaus at the time the indebtedness is incurred; thus, the borrower's ability to obtain an overextension of credit becomes a reality in many instances. A borrower who has withdrawn or graduated from school can honestly complete a credit application without indicating the existence of a guaranteed student loan for this specific financial obligation does not become due until 6 months from the point in time that he or she graduates or withdraws.

The potential creditor in performing a normal credit check would not find the existence of a GSL and the debtor is not withholding the truth by the absence of such a debt, for it is not yet due for repayment, resulting in the granting of credit which, in too many cases, leads to an overextension at the time the GSL becomes due for repayment.

More times than not the GSL is the debt receiving the least priority because of its large monetary size, modest interest rate, and its exclusion from repossession. If that information were available to the grantor of credit, it could have a direct bearing on the approval of future credit, as well as the amount of credit approved. Consequently, if the GSL were reported to and listed with a credit bureau at some point between the time the loan is disbursed, but before the loan enters repayment, this could result in the reduction in the number of borrowers who become overburdened in debt eventually leading to the nonpayment of the GSL.

Data from an examination recently conducted show that 9½ percent of accounts reported at the time of disbursement were able to receive additional credit as opposed to 37 percent for accounts reported at the time of maturity; just about four times as many. Clearly by listing the loans at the time of disbursement, the student's credit portfolio will provide any potential creditor with an accurate accounting of the borrower's financial responsibility on which prudent credit judgment may be made.

This, in turn, should lead to a reduction or a rejection of additional credit increasing the probability of the GSL being paid in full. Traditionally, borrowers who fail to repay their GSL's oftentimes experience difficulty in repaying other consumer loans as a result of their debt burden. The existence of the GSL, in addition to other debts, forces many borrowers into a delinquency or default stage with other creditors which, in turn, often leads to bankrupty or litigation.

Limiting the amount of credit available to this relatively young cohort is a service rather than a disserve, for it should reduce or eliminate the problem of delinquency or default in other consumer loan portfolios. This recommendation, if legislated, will have far-reaching impact beyond the GSL in helping consumers manage their credit more wisely.

On a positive side, the borrower will be able to establish an acceptable credit history which will remain with that borrower indefinitely. Sound credit practices are established early in life. Mandating that GSL's be reported to credit bureaus at the time of disbursement by lenders, agencies, or holders of loans will serve as a giant step toward a healthy credit history benefiting the student borrower regardless of the education derived as a result of that GSL.

The second suggestion is to reinstate the 9-month grace period. Currently, students have, or may have a grace period of 6 or 9 months depending on the terms of their promissory note and the date of loan consummation. Under this set of circumstances strict compliance with the terms of the promissory note would certainly lead to confusion on the part of the lender and the student at the time of repayment. The task force does not believe that a 6-month grace period gives the borrower sufficient time to establish himself or herself in a job that would provide sufficient income to enable the borrower to begin repayment of those loans. If the present 6-month grace period were to be expanded to the former 9 months, the extra cost in interest paid by the Federal Government for those 3 months would be dwarfed when compared with the dollar value of accounts that would be prevented from entering default. For this reason, recommendation is made to return to the 9-month grace period for all borrowers before repayment is expected.

A third recommendation. Discontinue loan eligibility for any borrower with an outstanding defaulted loan. Current Federal law and regulation directs schools and guarantee agencies to deny subsequent loans to a borrower with an outstanding default if that borrower remains enrolled in the same school. If the student enrolls at a different school, he or she is eligible for additional loans. This mandate is counterproductive and encourages transfer to other institutions to qualify for additional financial assistance. This practice, allowed by law, should be terminated. The present legislation should be amended to prohibit any borrower who is in default on any educational loan at any institution from receiving additional educational loans.

Fourth, chapter 13 bankruptcy needs to be strengthened. I am cognizant of the fact that legislation dealing with bankruptcy does not come under the purview of this committee. However, I call to your attention a loophole in the present legislation that allows many borrowers to legitimately avoid payment of their defaulted student loans. Presently, the Federal bankruptcy law prevents a borrower from discharging his student loan through chapter 7 bankruptcy for a period of 5 years after the borrower enters repayment or for undue hardship. This is valid and effective, but, unfortunately, this prohibition does not apply to a chapter 13 bankruptcy where a borrower develops a plan to repay his or her creditors.

Since a student loan is considered unsecured credit, a typical plan may call for repayment anywhere from a modest percentage of the outstanding student loan balance to zero as satisfaction of that debt. Consequently, guarantee agencies are experiencing a discernible trend toward the use of chapter 13 bankruptcies to avoid repayment of student loans. In New Jersey alone we have experienced a 217-percent increase from fiscal year 1981 to fiscal year 1985 from 125 cases to 397 seeking chapter 13. Clearly this loophole should be closed by extending the 5-year rule and undue hardship provision now under chapter 7 to chapter 13.

A fifth recommendation. Extend the Federal employer salary offset authority to guarantee agencies. The Department of Education is presently offsetting the salaries of Federal employees who have defaulted on their student loans. This authority, however, extends only to those loans actually held by the Federal Government; i.e., FISL, NDSL guarantee agencies that hold defaulted loans belonging to Federal employees may not participate in this salary offset program. Not only is this discriminatory to the Federal employee borrowing under the Federal versus State guarantee program, but is contrary to sound collection practices.

Since the Federal Government has a vested interest—in most cases 100 percent—in those defaulted loans reinsured to State agencies, the offset authority should be extended to guarantee agencies or a procedure established whereby the guarantee agency may refer defaulted Federal employees to the Department of Education for offset similar to the soon to be implemented Federal income tax offset program.

A sixth recommendation. Increase the applicable interest rate on defaulted student loans that are reduced to judgment. Some States, at the discretion of the courts, allow a creditor to increase the interest to a percentage rate higher than the original rate whenever a loan has been reduced to judgment. While individual State laws are effective in this area, it would be more effective if Federal legislation governing this program were changed to require a higher interest rate on defaulted loans. The desired effect of such legislation would assign the defaulted student loan equal priority to other indebtedness. The debtors would enjoy no benefits by delaying the repayment of a 7- or an 8- or a 9-percent GSL. Provisions for undue hardship could be considered within the legislation.

Seventh. Reconstitute the consolidation of loans. Prior to November 1, 1981, the Options Program administered through Student Loan Marketing Association provided debtors with multiple loans from different sources and/or debtors with high indebtedness to recast their loans into one monthly payment, and in some cases extend beyond the number of years originally assigned. This mechanism helped debtors owing more than $300 million nationally to reassess their financial situation and participate in the Options Program. The absence of this proviso leaves a chasm for those debtors sincerely interested in fulfilling their responsibility but lacking the wherewithal to do it. A void was created and should be replaced on a broader scale allowing lenders, guarantee agencies, and Sallie Mae to offer this consolidation plan if future defaulted loans are to be avoided.

Eighth. Federal legislation allowing the garnishment of GSL defaulters. Many States, including New Jersey, execute garnishment against wages as a means of collection whenever conditions warrant. It is very effective and should be used nationally. However, some existing State and local laws prohibit this procedure of collection, creating a shelter for those seeking to escape payment of this obligation. Again, I am aware that the suggestion of modifying State laws to accommodate this recommendation does not come under the direct jurisdiction of this committee, but I wish to communicate an effective means of collection that could and should be employed to protect the equity of the Federal Government's vested interest.

Ninth. Establish a minimum of a six-year statute of limitations. This statute is inconsistent among States. The recommendation is made that a minimum of a six-year statute of limitations be established under Federal law in all States concerning defaulted student loans. States with longer statutes or no limitations on governmental loans would not be affected.

Tenth. Require multiple disbursements. This recommendation has been echoed many times by agencies and lenders alike. Multiple disbursements will not only save the Federal Government money on the payment of interest and special allowance on smaller amounts, but will go a long way in reducing defaulted loan dollars in those cases where students withdraw prematurely. Not only is the Federal exposure reduced substantially, but the debtor has greater incentive toward repaying a loan half of its original amount.

Eleventh, and last. Copayable GSL checks. Lenders should be required to make GSL checks jointly payable to the educational institution and the student borrower, unless the borrower is attending a school in a foreign country, or be required to send the borrower's check directly to the educational institution in order to assure that the proceeds are used for purposes intended.

New Jersey has been employing this practice since June 1983 with minimal problems from public or independent educational institutions within or outside of New Jersey. On a positive side, we have experienced a reduction in cases suspicious of fraudulent activity. The modest cost and small inconvenience associated with this requirement will prove to be a wise investment in the prevention of defaulted loans.

That concludes my recommendations, and I would be pleased to amplify on any suggestion if the committee requires. Thank you.

Mr. Ford. Thank you.

[The prepared statement of Richard J. Innocenzi follows:]

Prepared Statement of Richard J. Innocenzi, Director, New Jersey Higher Education Assistance Authority

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

MY NAME IS RICHARD INNOCENZI AND I AM THE DIRECTOR OF THE GSLP/PLUS PROGRAMS IN NEW JERSEY. I HAVE BEEN AFFILIATED WITH THE PROGRAM FOR 19 YEARS, SERVING AS DIRECTOR SINCE 1980.

I AM PLEASED TO HAVE BEEN INVITED TO TESTIFY BEFORE THIS COMMITTEE ON A TOPIC OF CONCERN TO CONGRESS, GUARANTORS, LENDERS, POSTSECONDARY INSTITUTIONS, AND TAXPAYERS. I ALLUDE TO THE ISSUE OF DEFAULT AVOIDANCE AND DEFAULT COLLECTION. I HAVE HAD THE HONOR OF CHAIRING A TASK FORCE FOR THE NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS IN 1984 TO STUDY WAYS AND MEANS OF AVOIDING OR MINIMIZING THE PROBABILITY OF DEFAULTED LOANS AND/OR THE IMPROVEMENT OF COLLECTIONS ONCE THE LOAN IS DEFAULTED. MANY OF THE RECOMMENDATIONS CONTAINED IN THAT REPORT DO NOT REQUIRE LEGISLATIVE CHANGE BUT RATHER A STRENGTHENING OF PROCEDURES BY AGENCIES, OR LENDERS, OR SCHOOLS, IF DEFAULTED LOANS ARE TO BE REDUCED. SOME EXAMPLES OF THESE WERE (A) OBTAIN A CREDIT CHECK WHERE APPLICABLE; (B) MORE ADEQUATE COUNSELING IN DEBT MANAGEMENT; (C) PROVIDE THE BORROWER WITH AN UPDATED ACCOUNTING OF OUTSTANDING DEBT; (D) IMPROVE THE EFFECTIVENESS OF THE EXIT INTERVIEW WITH STUDENT; (E) ENCOURAGE AN ENTRANCE INTERVIEW; AND (F) WORK MORE CLOSELY WITH GRANT PROGRAMS TO BE SURE STUDENTS, ESPECIALLY FIRST-YEAR STUDENTS, ARE AWARE OF GRANT AID, SINCE THIS IS THE COHORT MOST SUSCEPTIBLE TO HIGH DEFAULT RATES. I AM PLEASED TO REPORT THAT MANY STATES, INCLUDING MY OWN STATE OF NEW JERSEY, HAVE ENDORSED AND IN FACT IMPLEMENTED MANY OF THESE CONCEPTS IN RECENT MONTHS. WE REMAIN OPTIMISTIC THAT THESE EFFORTS WILL BEAR FRUIT IN THE NEAR FUTURE INDICATED BY A DOWNWARD TREND IN DEFAULTED LOAN ACTIVITY.

THERE WERE OTHER VALID RECOMMENDATIONS CONTAINED IN THAT REPORT THAT COULD BE VERY EFFECTIVE, BUT WOULD REQUIRE LEGISLATIVE CHANGE TO THE EXISTING LAW. I WOULD LIKE TO SHARE SOME OF THESE RECOMMENDATIONS FOR YOUR CONSIDERATION DURING THE REAUTHORIZATION PROCESS IN ORDER THAT WE MAY MAKE A GOOD PROGRAM EVEN BETTER. I SUBMIT 11 RECOMMENDATIONS ADOPTED BY THE NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS THAT WILL BUTTRESS THE GUARANTEED STUDENT LOAN PROGRAM IN THE AREA OF REDUCING DEFAULTED LOANS IF FEDERAL LEGISLATION IS MODIFIED.

1. Reporting GSL's to credit bureaus at the time the loan is disbursed. Currently, only a limited number of lenders report GSL's to credit bureaus at the time the indebtedness is incurred, thus the borrower's ability to obtain an over-extension of credit becomes reality in many instances. A borrower who has withdrawn or graduated from school can complete a credit application without indicating the existence of a Guaranteed Student Loan for this specific financial obligation does not become due until six months from the point in time a person graduates or withdraws. The potential creditor in performing a normal credit check would not find the existence of a GSL and the debtor is not withholding the truth by the absence of such a debt, for it is not yet due for repayment, resulting in the granting of credit which in too many cases leads to an over-extension at the time the GSL becomes due for repayment. More times than not the GSL is the debt receiving the least priority because of its large monetary size, modest interest rate, and exclusion from repossession. If that information were available to the grantor of credit, it could have a direct bearing on the approval of future credit, as well as the amount of credit approved. Consequently, if the GSL were reported to and listed with the credit bureau at some point between the time the loan is disbursed, but before the loan enters repayment, this could result in the reduction in the number of borrowers who become overburdened in debt eventually leading to nonpayment of the GSL. Data from an examination recently conducted show that 9½ percent of accounts reported at the time of disbursement were able to receive additional credit opposed to 37 percent for accounts reported at time of maturity, or about four times as many. Clearly by listing the loans at the time of disbursement, the student's credit portfolio will provide any potential creditor with an accurate accounting of the borrower's financial responsibility

ON WHICH A PRUDENT CREDIT JUDGMENT MAY BE MADE. THIS IN TURN SHOULD LEAD TO A REDUCTION OR A REJECTION OF ADDITIONAL CREDIT INCREASING THE PROBABILITY OF THE GSL BEING PAID IN FULL. TRADITIONALLY, BORROWERS WHO FAIL TO REPAY THEIR GSL'S OFTEN TIMES EXPERIENCE DIFFICULTY IN REPAYING OTHER CONSUMER LOANS AS A RESULT OF THEIR DEBT BURDEN. THE EXISTENCE OF THE GSL, IN ADDITION TO THE OTHER DEBT(S), FORCES MANY BORROWERS INTO A DELINQUENCY OR DEFAULT STAGE WITH OTHER CREDITORS WHICH IN TURN OFTEN LEADS TO BANKRUPTCY OR LITIGATION. LIMITING THE AMOUNT OF CREDIT AVAILABLE TO THIS RELATIVELY YOUNG COHORT IS A SERVICE RATHER THAN A DISSERVICE, FOR IT SHOULD REDUCE OR ELIMINATE THE PROBLEM OF DELINQUENCY OR DEFAULT PROBLEM IN OTHER CONSUMER LOAN PORTFOLIOS. THIS RECOMMENDATION, IF LEGISLATED, WILL HAVE A FAR REACHING IMPACT BEYOND THE GSL IN HELPING CONSUMERS MANAGE THEIR CREDIT MORE WISELY. ON A POSITIVE SIDE, THE BORROWER WILL BE ABLE TO ESTABLISH AN ACCEPTABLE CREDIT HISTORY WHICH WILL REMAIN WITH THAT BORROWER INDEFINITELY. SOUND CREDIT PRACTICES ARE ESTABLISHED EARLY IN LIFE. MANDATING THAT GSL'S BE REPORTED TO CREDIT BUREAUS AT THE TIME OF DISBURSEMENT BY LENDERS, AGENCIES, OR HOLDERS OF LOANS WILL SERVE AS A GIANT STEP TOWARD A HEALTHY CREDIT HISTORY BENEFITING THE STUDENT BORROWER REGARDLESS OF THE EDUCATION DERIVED AS A RESULT OF THE GSL.

2. REINSTATE THE NINE-MONTH GRACE PERIOD. CURRENTLY, STUDENTS MAY HAVE A GRACE PERIOD OF SIX OR NINE MONTHS DEPENDING ON THE TERMS OF THEIR PROMISSORY NOTE AND THE DATE OF LOAN CONSUMMATION. UNDER THIS SET OF CIRCUMSTANCES, STRICT COMPLIANCE WITH THE TERMS OF THE PROMISSORY NOTE WOULD CERTAINLY LEAD TO CONFUSION ON THE PART OF THE LENDER AND THE STUDENT AT TIME OF REPAYMENT. THE TASK FORCE DOES NOT BELIEVE THAT

A SIX-MONTH GRACE PERIOD GIVES THE BORROWER SUFFICIENT TIME TO ESTABLISH HIMSELF/HERSELF IN A JOB THAT WOULD PROVIDE SUFFICIENT INCOME TO ENABLE THE BORROWER TO BEGIN REPAYMENT OF THE LOANS. IF THE PRESENT SIX-MONTH GRACE PERIOD WERE TO BE EXPANDED TO THE FORMER NINE MONTHS, THE EXTRA COST IN INTEREST PAID BY THE FEDERAL GOVERNMENT FOR THREE MONTHS WOULD BE DWARFED WHEN COMPARED WITH THE DOLLAR VALUE OF ACCOUNTS THAT WOULD BE PREVENTED FROM ENTERING DEFAULT. FOR THIS REASON, RECOMMENDATION IS MADE TO RETURN TO THE NINE-MONTH GRACE PERIOD FOR ALL BORROWERS BEFORE REPAYMENT IS EXPECTED.

3. DISCONTINUE LOAN ELIGIBILITY FOR ANY BORROWER WITH AN OUTSTANDING DEFAULTED LOAN. CURRENT FEDERAL LAW AND REGULATION DIRECTS SCHOOLS AND GUARANTY AGENCIES TO DENY SUBSEQUENT LOANS TO A BORROWER WITH AN OUTSTANDING DEFAULT IF THAT BORROWER REMAINS ENROLLED IN THE SAME SCHOOL. IF THE STUDENT ENROLLS AT A DIFFERENT SCHOOL, HE OR SHE IS ELIGIBLE FOR ADDITIONAL LOANS. THIS MANDATE IS COUNTER-PRODUCTIVE AND ENCOURAGES TRANSFER TO OTHER INSTITUTIONS TO QUALIFY FOR ADDITIONAL FINANCIAL ASSISTANCE. THIS PRACTICE, ALLOWED BY LAW, SHOULD BE TERMINATED. THE PRESENT LEGISLATION SHOULD BE AMENDED TO PROHIBIT ANY BORROWER WHO IS IN DEFAULT ON ANY EDUCATIONAL LOAN AT ANY INSTITUTION FROM RECEIVING ADDITIONAL EDUCATIONAL LOANS.

4. CHAPTER 13 BANKRUPTCY NEEDS TO BE STRENTHENED. I AM COGNIZANT OF THE FACT THAT LEGISLATION DEALING WITH BANKRUPTCY DOES NOT COME UNDER THE PURVIEW OF THIS COMMITTEE; HOWEVER, I CALL TO YOUR ATTENTION A LOOPHOLE IN THE PRESENT LEGISLATION THAT ALLOWS MANY BORROWERS TO LEGITIMATELY AVOID PAYMENT OF THEIR DEFAULTED STUDENT LOANS. PRESENTLY, THE FEDERAL BANKRUPTCY LAW PREVENTS A BORROWER FROM DISCHARGING A STUDENT LOAN THROUGH CHAPTER 7 BANKRUPTCY FOR A

PERIOD OF FIVE YEARS AFTER THE BORROWER ENTERS REPAYMENT OR FOR UNDUE HARDSHIP. THIS IS VALID AND EFFECTIVE, BUT UNFORTUNATELY, THIS PROHIBITION DOES NOT APPLY TO A CHAPTER 13 BANKRUPTCY WHERE A BORROWER DEVELOPS A PLAN TO REPAY HIS OR HER CREDITORS. SINCE A STUDENT LOAN IS CONSIDERED UNSECURED CREDIT, A TYPICAL PLAN MAY CALL FOR REPAYMENT ANYWHERE FROM A MODEST PERCENTAGE OF THE OUTSTANDING STUDENT LOAN BALANCE TO ZERO AS SATISFACTION OF THE DEBT. CONSEQUENTLY, GUARANTY AGENCIES ARE EXPERIENCING A DISCERNIBLE TREND TOWARD THE USE OF CHAPTER 13 BANKRUPTCIES TO AVOID REPAYMENT OF STUDENT LOANS. IN NEW JERSEY ALONE WE HAVE EXPERIENCED A 217 PERCENT INCREASE SINCE FY 81 TO FY 85 FROM 125 CASES TO 397 SEEKING CHAPTER 13. CLEARLY THIS LOOPHOLE SHOULD BE CLOSED BY EXTENDING THE FIVE-YEAR RULE AND UNDUE HARDSHIP PROVISION NOW UNDER CHAPTER 7 TO CHAPTER 13.

5. EXTEND FEDERAL EMPLOYER SALARY OFFSET AUTHORITY TO GUARANTY AGENCIES. THE DEPARTMENT OF EDUCATION IS PRESENTLY OFFSETTING THE SALARIES OF FEDERAL EMPLOYEES WHO HAVE DEFAULTED ON THEIR STUDENT LOANS. THIS AUTHORITY, HOWEVER, EXTENDS ONLY TO THOSE LOANS ACTUALLY HELD BY THE FEDERAL GOVERNMENT, I.E. FISL, NDSL. GUARANTY AGENCIES THAT HOLD DEFAULTED LOANS BELONGING TO FEDERAL EMPLOYEES MAY NOT PARTICIPATE IN THIS SALARY OFFSET PROGRAM. NOT ONLY IS THIS DISCRIMINATORY TO THE FEDERAL EMPLOYEE BORROWING UNDER THE FEDERAL VERSUS STATE GUARANTY PROGRAM, BUT IS CONTRARY TO SOUND COLLECTION PRACTICES. SINCE THE FEDERAL GOVERNMENT HAS A VESTED INTEREST, IN MOST CASES 100 PERCENT, IN THOSE DEFAULTED LOANS REINSURED TO STATE AGENCIES, THE OFFSET AUTHORITY SHOULD BE EXTENDED TO GUARANTY AGENCIES OR A PROCEDURE ESTABLISHED WHEREBY THE GUARANTY AGENCY MAY REFER DEFAULTED FEDERAL EMPLOYEES TO THE DEPARTMENT OF EDUCATION FOR OFFSET SIMILAR TO THE SOON TO BE IMPLEMENTED FEDERAL INCOME TAX REFUND OFFSET PROGRAM.

6. INCREASE THE APPLICABLE INTEREST RATE ON DEFAULTED STUDENT LOANS THAT ARE REDUCED TO JUDGMENT. SOME STATES, AT THE DISCRETION OF THE COURTS, ALLOW A CREDITOR TO INCREASE THE INTEREST TO A PERCENTAGE RATE HIGHER THAN THE ORIGINAL RATE WHENEVER A LOAN HAS BEEN REDUCED TO JUDGMENT. WHILE INDIVIDUAL STATE LAWS ARE EFFECTIVE IN THIS AREA, IT WOULD BE MORE EFFECTIVE IF FEDERAL LEGISLATION GOVERNING THIS PROGRAM WERE CHANGED TO REQUIRE A HIGHER INTEREST RATE ON DEFAULTED LOANS. THE DESIRED EFFECT OF SUCH LEGISLATION WOULD ASSIGN THE DEFAULTED STUDENT LOAN EQUAL PRIORITY TO OTHER INDEBTEDNESS. THE DEBTORS WOULD ENJOY NO BENEFITS BY DELAYING THE REPAYMENT OF A 7, 8, OR 9 PERCENT GSL. PROVISIONS FOR UNDUE HARDSHIP COULD BE CONSIDERED WITHIN THE LEGISLATION.

7. RECONSTITUTE CONSOLIDATION OF LOANS. PRIOR TO NOVEMBER 1, 1983, THE OPTIONS PROGRAM ADMINISTERED THROUGH STUDENT LOAN MARKETING ASSOCIATION PROVIDED DEBTORS WITH MULTIPLE LOANS FROM DIFFERENT SOURCES AND/OR DEBTORS WITH HIGH INDEBTEDNESS TO RECAST THEIR LOANS INTO ONE MONTHLY PAYMENT AND IN SOME CASES EXTENDED BEYOND THE NUMBER OF YEARS ORIGINALLY ASSIGNED. THIS MECHANISM HELPED DEBTORS OWING MORE THAN $300 MILLION NATIONALLY TO REASSESS THEIR FINANCIAL SITUATION AND PARTICIPATE IN THE OPTIONS PROGRAM. THE ABSENCE OF THIS PROVISO LEAVES A CHASM FOR THOSE DEBTORS SINCERELY INTERESTED IN FULFILLING THEIR RESPONSIBILITY BUT LACKING THE WHEREWITHAL TO DO IT. A VOID WAS CREATED AND SHOULD BE REPLACED ON A BROADER SCALE ALLOWING LENDERS, GUARANTY AGENCIES, AND SALLIE MAE TO OFFER THIS CONSOLIDATION PLAN IF FUTURE DEFAULTED ACCOUNTS ARE TO BE AVOIDED.

8. FEDERAL LEGISLATION ALLOWING GARNISHMENT OF GSL DEFAULTERS. MANY STATES, INCLUDING NEW JERSEY, EXECUTE GARNISHMENT AGAINST WAGES AS A MEANS OF COLLECTION WHENEVER CONDITIONS

WARRANT. IT IS VERY EFFECTIVE AND SHOULD BE USED NATIONALLY, HOWEVER, SOME EXISTING STATE AND LOCAL LAWS PROHIBIT THIS PROCEDURE OF COLLECTION, CREATING A SHELTER FOR THOSE SEEKING TO ESCAPE REPAYMENT OF THIS OBLIGATION. AGAIN, I AM AWARE THAT THE SUGGESTION OF MODIFYING STATE LAWS TO ACCOMMODATE THIS RECOMMENDATION DOES NOT COME UNDER THE DIRECT JURISDICTION OF THIS COMMITTEE, BUT I WISH TO COMMUNICATE AN EFFECTIVE MEANS OF COLLECTION THAT COULD AND SHOULD BE EMPLOYED TO PROTECT THE EQUITY OF THE FEDERAL GOVERNMENT'S VESTED INTEREST.

9. ESTABLISH A MINIMUM OF A SIX-YEAR STATUTE OF LIMITATIONS. THIS STATUTE IS INCONSISTENT AMONG STATES. THE RECOMMENDATION IS MADE THAT A MINIMUM OF A SIX-YEAR STATUTE OF LIMITATIONS BE ESTABLISHED UNDER FEDERAL LAW IN ALL STATES CONCERNING DEFAULTED STUDENT LOANS. STATES WITH LONGER STATUTES OR NO LIMITATION ON GOVERNMENTAL LOANS WOULD NOT BE AFFECTED.

10. REQUIRE MULTIPLE DISBURSEMENTS. THIS RECOMMENDATION HAS BEEN ECHOED BY AGENCIES AND LENDERS ALIKE. MULTIPLE DISBURSEMENTS WILL NOT ONLY SAVE THE FEDERAL GOVERNMENT MONEY ON PAYMENT OF INTEREST AND SPECIAL ALLOWANCE ON SMALLER AMOUNTS, BUT WILL GO A LONG WAY IN REDUCING DEFAULTED LOAN DOLLARS IN THOSE CASES WHERE STUDENTS WITHDRAW PREMATURELY. NOT ONLY IS THE FEDERAL EXPOSURE REDUCED SUBSTANTIALLY, BUT THE DEBTOR HAS GREATER INCENTIVE TOWARD REPAYING A LOAN HALF OF ITS ORIGINAL AMOUNT.

11. COPAYABLE GSL CHECKS. LENDERS SHOULD BE REQUIRED TO MAKE GSL CHECKS JOINTLY PAYABLE TO THE EDUCATIONAL INSTITUTION AND THE STUDENT BORROWER (UNLESS THE BORROWER IS ATTENDING A FOREIGN INSTITUTION) OR BE REQUIRED TO SEND THE BORROWER'S CHECK DIRECTLY TO

THE EDUCATIONAL INSTITUTION IN ORDER TO ASSURE THE PROCEEDS ARE USED FOR PURPOSES INTENDED. NEW JERSEY HAS BEEN EMPLOYING THIS PRACTICE SINCE JUNE 1983 WITH MINIMAL PROBLEMS FROM PUBLIC OR INDEPENDENT EDUCATIONAL INSTITUTIONS WITHIN AND OUTSIDE OF NEW JERSEY. ON A POSITIVE SIDE, WE HAVE EXPERIENCED A REDUCTION IN CASES SUSPECTED OF FRAUDULENT ACTIVITY. THE MODEST COST AND SMALL INCONVENIENCE ASSOCIATED WITH THIS REQUIREMENT WILL PROVE TO BE A WISE INVESTMENT IN THE PREVENTION OF DEFAULTED LOANS.

THAT CONCLUDES MY RECOMMENDATIONS. I WOULD BE PLEASED TO AMPLIFY ON ANY SUGGESTION IF THE COMMITTEE REQUIRES.

Mr. FORD. Mr. Davis?

Mr. DAVIS. Mr. Chairman, my name is Jerry Davis. I am director of research and policy analysis for the Pennsylvania Higher Education Assistance Agency, the guarantee agency for the Commonwealth. I am also chairman of the research committee of the National Council of Higher Education Loan Programs, but I am appearing here today as a representative of PHEAA.

What we have tried to do in the paper that is appended to this particular report is to go through several studies and data bases that are concerned with defaults in the GSL program and try to cull out what we actually know is fact, or at least what we can assign the term "fact" to. Basically we were looking at items upon which there is total agreement, or as total agreement as we can get it. Our intention in publishing this particular report is to help to bring some degree of illumination to the topic of defaults.

The facts that we have found are ones that researchers, policy analysts and administrators have learned about GSL defaults. They are described in detail in the paper that is called "Ten Facts About Defaults in the GSL Program."

I am drawing on a variety of data bases. One is the Virginia Education Loan Authority's study. Gene Cattie, the executive director of VELA has asked me to enter a summary of his description of that study as part of the testimony for today.

Mr. FORD. Without objection, it will be included in the record at this point.

[The prepared statement of Eugene G. Cattie follows:]

PREPARED STATEMENT OF EUGENE G. CATTIE, EXCUTIVE DIRECTOR, VIRGINIA EDUCATION LOAN AUTHORITY

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss a study completed by the Virginia Education Loan Authority (VELA) that analyzed the student borrowers who defaulted on their loans. As executive director of VELA, a direct lender in the guaranteed student loan program, it is my responsibility to oversee the lending, collection, and secondary market activities of the organization. My testimony on the default study includes the purpose of the study, characteristics of defaulters, VELA's collection program and procedures, and efforts implemented from the study findings to reduce defaults. Pie charts of information from the study are also included as an enclosure to this testimony.

PURPOSE OF THE STUDY

VELA was created in 1978 as a supplemental lender in Virginia, since there were difficulties encouraging the commercial lenders to participate in the program. Since its inception, VELA has grown to be one of the largest direct lending programs in the country, assisting 116,000 students for $500,000,000. Prior to 1981, loans in a repayment status were serviced by a third party billing and collection agency, until VELA established an in-house collection system to service loans. It was decided that an analysis of VELA's collection and default history would be appropriate in 1984, at a time when the Authority had approximately 50% of its volume in repayment and 3 years experience in student loan collection. The purpose of the study was to identify characteristics of defaulters and then analyze our servicing and collection techniques to determine their effectiveness in delinquency and default prevention. As you know, collection of student loans is unique because of the required regulated procedures in the administration of the program. A loan that is repaid at a much later date is not normal when using regular collection techniques.

CHARACTERISTICS OF DEFAULTERS

The characteristics of VELA's defaulters were very similar to those found by other states. A summary of the characteristics are:

		Percent of Defaulters
1.	Total family income of $10,000 or less	64%
2.	Enrolled in 2-yr. public or proprietary school	49%
3.	First year undergraduate	54%
4.	Total indebtedness between $2,000 - $2,500	33%
5.	No payments made before default	73%
6.	Maximum skip-tracing efforts required	48%
7.	Little or no phone contact with borrower	83%

In addition to these characteristics, VELA reviewed the collection history files of each defaulter to determine reasons for not repaying loans. The reasons were placed into categories with the most likely reasons for default shown below.

1.	Sent deferment forms (for example: employment or hardship) borrowers showed indifference or non-compliance and did not return form to prevent default	34%
2.	Skips - unable to locate borrowers and lost contact with borrower after moving and not informing VELA	35%
3.	Broke payment promises-avoided repayment	13%

COLLECTION EFFORTS

The second part of the study discusses the Authority's collection program and skip-tracing efforts. These extensive and diverse methods are largely attributed to management's progressive and sophisticated automated approach to the administration of collecting student loans.

1. Repayment Options

   The billing system has been organized with a variety of payment methods to encourage repayment. Coupon books, monthly billings, or electronic funds transfer (VELAMATIC) are provided to the student borrowers. In-state and out of state toll free lines are available for borrowers to call in to discuss problems. Counselors work day and evening hours for borrowers who wish to visit our office and discuss their accounts personally.

2. Telephone Collectors
   Part time telephone collectors and default prevention specialists work in the evenings from 4:30 -8:30 p.m. It is felt that trained, specialized collectors are more effective in working to prevent defaults. A sophisticated and paperless data processing system provides information on borrowers' accounts, reducing paperwork and enabling collectors to spend time on delinquents. Telephone contact is made at least every 5 days since constant communication is a key factor in avoiding defaults. These individuals are highly trained to understand the complexity of the student loan program so they can produce results to lower delinquencies and defaults.

3. Skip-tracing The system also generates all standard delinquency letters to borrowers which increase the demand for payment as the accounts become progressively delinquent. Special letters have also been developed to supplement the computer letters in skip-tracing and encouraging payments or completion of deferment forms. The letters have a personal approach and positive tone to urge borrowers to save their loans from default. In addition to letters, VELA uses the

original application references and cross reference directories in locating borrowers. Credit bureau reports and address checks with the Virginia Division of Motor Vehicles also improve return on collections.

4. Relations with schools

Schools are a valuable resource in preventing defaults. Schools are concerned about increasing default rates due to guarantee agency's limit, suspend, and terminate regulations. By establishing a strong rapport with the schools in Virginia, addresses and enrollment verification are easily obtained by telephone for accounts appearing 60 days or more past due. This enables the accounts to be rectified without delays in awaiting forms. Some schools work with VELA to reduce defaults by requesting lists of borrowers from their school that are at least 60 days delinquent. Since schools are concerned about former students, an attempt is made to contact the delinquent borrower to deter default. We also try to work with administration and placement offices of schools to find better addresses on our skip accounts.

ACTIONS FROM THE FINDINGS OF THE STUDY

Finding: The typical GSL defaulter has a family income of

$10,000 or less, attends 2-year public or proprietary institutions, and completes 1 year or less of school.

Action: As costs for post secondary education increase and federal student aid decreases, students from low income families are forced to borrow GSL's to meet remaining expenses. Since a large rumber of these students lack the necessary skills to complete school, it could be a disservice giving them loans. They leave in debt but with little educational benefit necessary to improve their positions financially and repay the loans. Therefore, additional federal and state grant and work funds should be targeted specifically to these students.

Finding: More attempts need to be made to prevent overindebtedness which could lead to default.

Action:
1. A letter has been implemented for borrowers as a reminder of the total amount outstanding on a yearly basis and indicating the approximate monthly payment amount at repayment.
2. A debt management booklet for borrowers has been produced through Virginia's State Financial Aid Association (VASFAA) and a GSL

indebtedness committee through VASFAA has been formed to address issues involving overindebtedness.

Finding: Borrower awareness of repayment obligations means few collection problems and reduced defaults.

Action: 1. Greater attempts are being used to explain borrower repayment responsibilities through counseling when the student applies for the loan.

2. An exit interview/debt management card has been designed by VELA for schools to use as a counseling tool prior to graduation of the student.

Finding: Maximum efforts are required to locate some borrowers and skips.

Action: 1. Since references from the original loan application can be outdated when repayment begins, new references are requested from the borrower after graduation or withdrawal from school.

2. New methods of skip-tracing are used, such as address check with the State Revenue Department in Virginia.

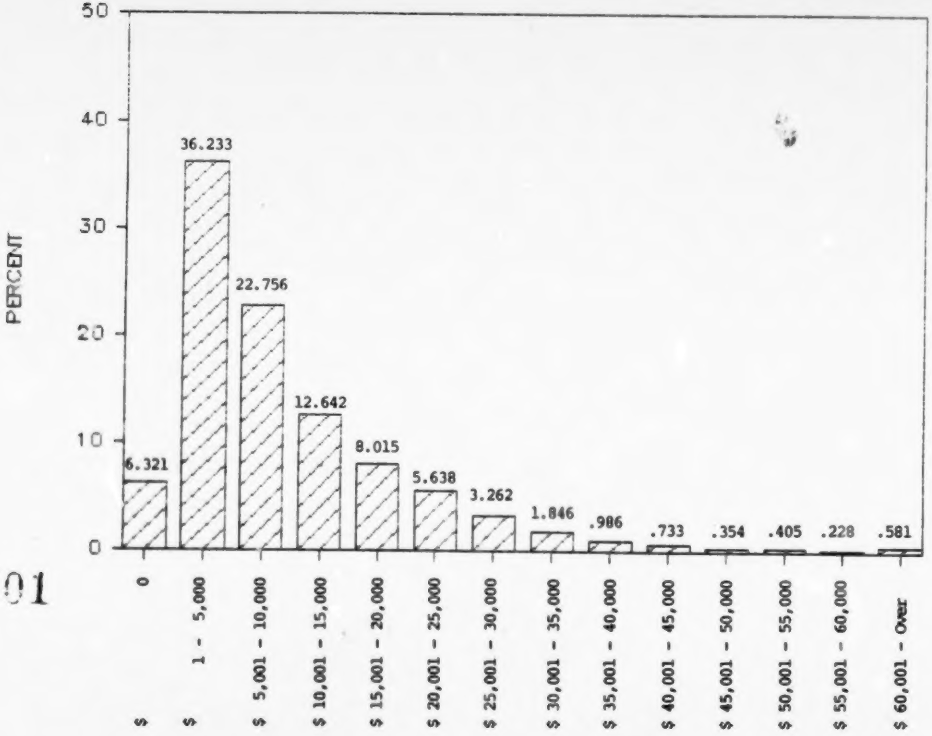
Finding: More emphasis is needed on default prevention.

Action: 1. A new automated account assigned system has been implemented to prioritize accounts for collectors to maximize efforts on the accounts with more serious delinquency to hopefully reduce defaults.

2. An experienced default prevention collector contacts 90 day delinquents to demand final payment and inform borrowers that default claim processing has begun on their account. A final warning about the consequences of default is given to prevent default.

CONCLUDING REMARKS

VELA's default study points out some significant factors related to collection efforts. The findings indicate efforts must go beyond normal due deligence requirements, and focus on communication and counseling as preventing delinquencies to overcome misunderstandings about the repayment process. As a result, VELA has successfully maintained a low default rate in spite of being a supplemental lender providing loans to all eligible students. It is important to stress that better than 96% of our students repay their loans which exemplifies the continued importance of this program as a source of financial aid in assisting students to meet the costs of higher education. Our objective is to develop collection procedures to continue our goal of a low delinquency and default rate on a very unique loan program. This concludes my testimony.



TOTAL INCOME AT TIME OF LOAN

EXHIBIT I

TYPE OF INSTITUTION

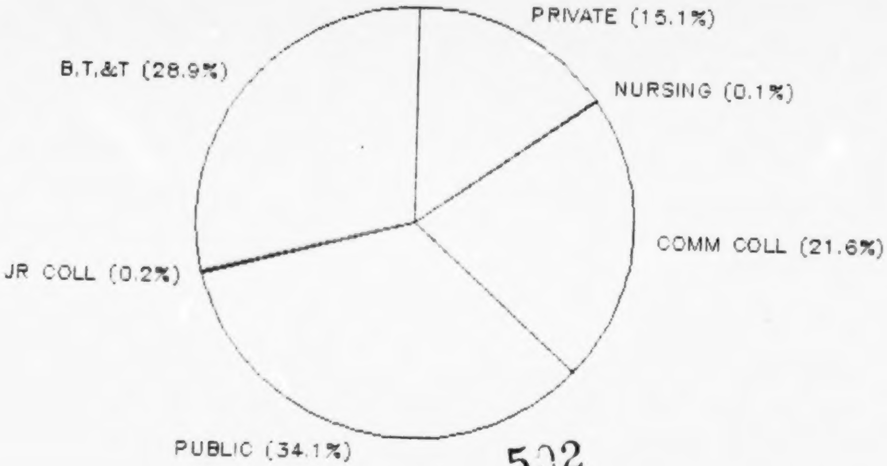


EXHIBIT II

GRADE LEVEL

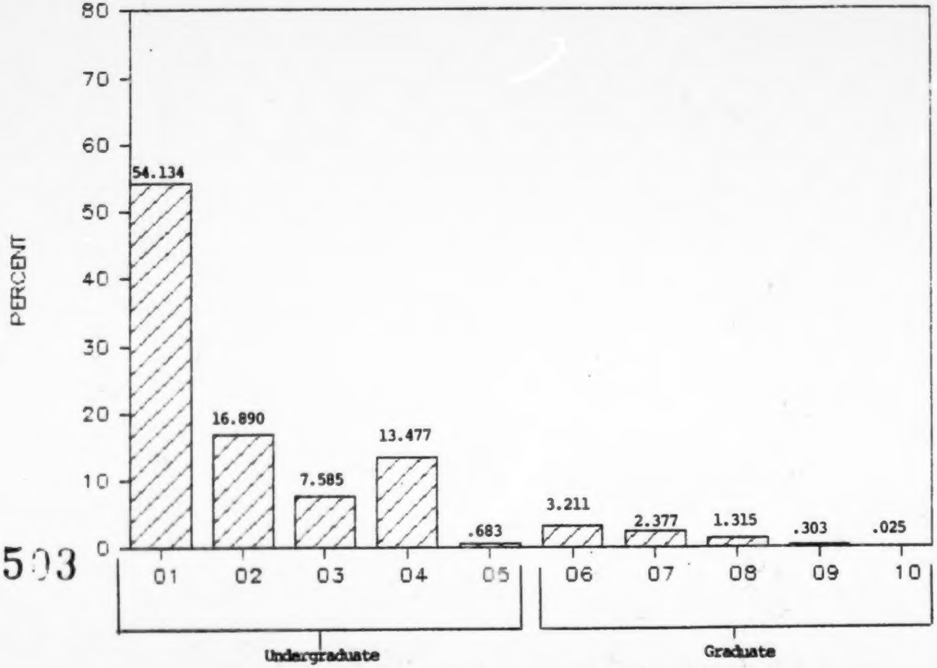


EXHIBIT III

CHARACTERISTICS FOR DEFAULT

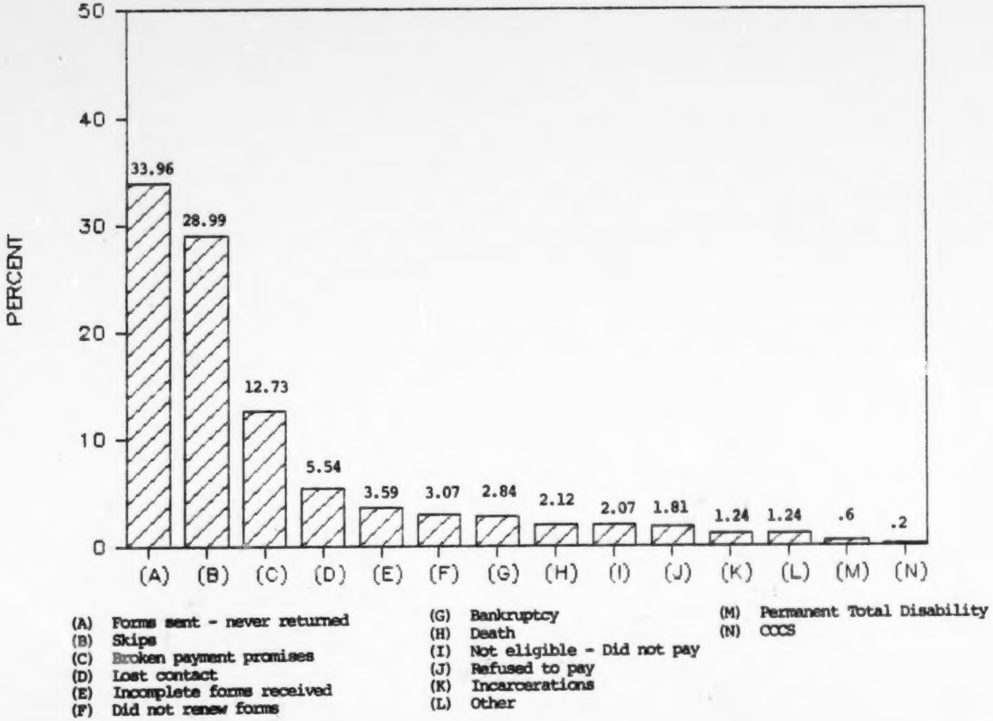


EXHIBIT IV

Mr. DAVIS. Thank you.

I will just list the 10 points. Some of these we have gone over numerous times this morning, so I won't have to expand upon them.

First, default rates in the GSLP are not soaring, nor are they out of control.

Second, default claims dollar volumes are growing, but not at an unexpected rate. You have tables over here to my left, or graphs, that show both of these facts.

Third, even though some borrowers do default on their loans, many dollars of defaulted loan indebtedness eventually are collected. Well over 70 percent of all the claims dollars paid since the inception of the program have been collected, or they are likely to be collected, or they will be discharged by legal means.

Fourth, borrowers typically do not default on high balance loans. The programwide average default claim for the past 3 years has ranged around $2,600. Only about 10 percent of all default claims are above $5,000. So the opinions that we hear that defaulters default on very high balance loans and they are running out on high balance debts just aren't true.

Fifth, the borrowers who are most likely to default are those who had extremely limited financial circumstances at the time they accepted their loans. One out of every five current GSL borrowers has less than $5,000 family income when the loans are received. One out of every three defaulters comes from these low-income family situations.

Sixth, default rates vary considerably by the types of institutions the borrowers last attended. I think we have fairly well documented almost everywhere that borrowers who attend less than 4-year institutions are much more likely than other borrowers to default on their loans. However, the borrowers at the less than 4-year institutions are much, much more likely to come from very low-income family financial circumstances. Institutional variations in default rates are more likely related to the characteristics of the borrowers who attend the schools than to any characteristics, policies or practices of the schools themselves.

Seventh, borrower employment and unemployment experiences are directly related to repayment and default rates. It is an obvious truism that borrowers can't repay their loans if they don't have the money to make the payments. And while some observers of GSLP defaults may believe and may wish others to believe that defaulting on loans is a consequence of borrower attitudes and unwillingness to accept responsibility for some debt, the empirical research data demonstrates otherwise. The fundamental reason the vast majority of borrowers default on their loans is simply that they don't have the financial means to meet their payments.

Eighth, increased activities by lenders, guarantors, postsecondary educational institutions, and all parties to the guranteed loan program to enhance borrower awareness of repayment obligations will help and does help to reduce defaults, but probably not by much. There is evidence that indicates we are improving our efforts in all of these areas of communication with borrowers, and this does help to reduce defaults and we have demonstrated that. But the positive effects of borrower awareness of a loan obligation and the ready willingness to meet that obligation are in many instances negated by borrower financial handicaps and inability to afford loan payments.

Ninth, more first-year students than any other borrowers default on their loans. We should expect this. Students who complete only one year of school are more likely than others to be younger, to be from low-income family financial circumstances, and to have attended a less-than-4-year institution. These factors are all associated with lower employment opportunities and earnings, and both of those things—lower employment opportunities and earnings—are associated with defaulting on GSL loans.

Ten, default rates and the GSL default problem vary considerably in magnitude from State to State. There are many possible reasons for these variations, but it is very likely that the differences, the State-by-State differences, are primarily a function of differences in borrower characteristics and secondarily a function of differences in policies, practices, and procedures in those States. We do not have a single programwide default problem, but we do have widely different default circumstances in various States which may not be handled in every State by the same corrective policies and actions.

These are the facts as we know them now. I will conclude my remarks with one additional fact and then a personal observation which is based only on my intuition. But I think my intuition will match yours.

The fact is only 7 percent of all the GSL borrowers who ever got a GSL loan defaulted on their loans. That is the fact. My intuition is that that percentage can't be reduced to much below 5 percent no matter how we change the program. In the normal course of human events, individuals experience unemployment, disabilities, divorce, death, and other misfortunes that prohibit or inhibit their making payments. No matter what we do or how well we plan our lives these things are going to happen to us.

The reason I picked 5 percent as my intuitive percentage is that it can be tested against your experiences and intuition as well as mine. I suggest you recall any time you knew of when 20 or more persons agreed to do something, whether it was something as pleasant as attend a party or a duty-bound commitment to vote some way on a legislative matter, or whether it was something not very pleasant. You will recall that one or more persons failed to do. They just failed to do it for enough different reasons that we statisticians might just say it was due to chance. And when I look at a 7-percent default rate from this 5-percent due-to-chance perspective or viewpoint, I don't personally believe we have much of a default problem in the GSL program.

Now, I know we can act to reduce defaults, and we are doing that, and there are many actions that will be prescribed in the future to do that. But we are not doing so badly right now.

I hope these few facts help the committee and others to better understand the default situation and guide deliberations on this subject. Thank you.

[The prepared statement of Jerry Sheehan Davis follows:]

Prepared Statement of Dr. Jerry Sheehan Davis, Director of Research and Policy Analysis, Pennsylvania Higher Education Assistance Agency

Mr. Chairman, my name is Jerry Davis. I'm director of research and policy analysis for the Pennsylvania Higher Education Assistance Agency, the guaranty agency for the Commonwealth. I am also chairman of the research committee of the National Council of Higher Education Loan Programs, but I am appearing here today as a representative of PHEAA.

I want to use this opportunity to provide the Subcommittee with some facts about defaults in the GSL Program. These facts are ones that researchers, policy analysts, and administrators have learned about GSLP defaults. They are described in detail in a paper appended to my presentation and which should be recorded as a part of today's comments. I'll be brief, just read the ten facts with little elaboration, and then be pleased to answer your questions.

(1) Default rates in the GSLP are not "soaring", nor are they "out of control." For the past four federal fiscal years the program default rates have remained between 10.2% and 9.2%.

(2) Default claims dollar volumes are growing, but not at an unexpected rate. Even had default rates remained constant rather than merely stable, the claims dollar volumes would have increased because so many new loans were coming due for repayment.

(3) Even though some borrowers do default on their loans, many dollars of defaulted loan indebtedness eventually are collected. Well over 70% of all the claim dollars paid have been collected, are likely to be collected, or will be discharged by legal means.

(4) Borrowers typically do not default on high balance loans. The program-wide average default claim for the past three years has ranged from $2,646 to $2,668. Only about 10% of all default claims are above $5,000.

(5) The borrowers who are most likely to default are those who had extremely limited financial resources at the time they accepted their loans. About one out of every five GSLP borrowers has less than $5,000 family income when loans are received. About one in three defaulters comes from these low-income family situations.

(6) Default rates vary considerably by the types of institutions the borrower last attended. Borrowers who attended less-than-four-year institutions are much more likely than other borrowers to default on their loans. However, the borrowers at the less-than-four-year schools are much, much more likely to come from very low-income family financial circumstances. Institutional variations in default rates are more likely related to the characteristics of borrowers who attend the schools than to characteristics, policies, or practices of the schools themselves.

(7) Borrower employment and unemployment experiences are directly related to repayment and default rates. It is an obvious truism that borrowers cannot repay their loans if they do not have the money to do so. While some observers of GSLP defaults may believe and wish others to believe that defaulting on loans is a consequence of borrower attitudes and unwillingness to accept responsibility for the debt, the empirical research data demonstrates otherwise. The fundamental reason the vast

majority of borrowers default on their GSLP loans is that they don't have the financial means to meet their payments.

(8) Increased activities by lenders, guarantors, and postsecondary educational institutions to enhance borrower awareness of repayment obligations help to reduce defaults, but probably not by much. There is evidence that indicates we are improving our efforts in all the areas of communication with borrowers and this helps to reduce defaults but the positive effects of borrower awareness of the loan obligation and ready willingness to meet that obligation are in many instances negated by borrower financial handicaps and inability to afford loan payments.

(9) More first-year students than any other borrowers default on their loans. We should expect this. Students who complete only one year of school are more likely than others to be younger, to be from low-income family financial circumstances, and to have attended less-than-four-year institutions. These factors are all associated with lower employment opportunities and earnings and both are associated with defaulting on GSLP loans.

(10) Default rates and the GSLP "default problem" vary considerably in magnitude from state to state. There are many possible reasons for these variations but it is very likely that the differences are primarily a function of differences in borrower characteristics and secondarily a function of differences in policies, practices, and procedures in those states. We do not have a single program-wide "default problem" but do have widely different default circumstances which may not be handled in every state by the same corrective policies or actions.

These are the facts as we know them now. I'd like to conclude my remarks with one additional fact and a personal observation based on my intuition will, I believe, match yours. Only 7% of all GSLP borrowers have ever defaulted on their loans. That's the fact. My intuition is that that percentage cannot be reduced to much below 5% no matter how we change the program.

In the normal course of human event individuals experience unemployment, disabilities, divorces, death and other misfortunes that prohibit or inhibit making payments. No matter what we do, or how well we plan our lives, these things happen.

The reason I picked 5% as my intuitive percentage is that it can be tested against your experiences and intuition as well as mine. If you will recall any time you knew of 20 or more persons who agreed to do anything, whether it was something as pleasant as attending a party, or a duty-bound commitment to vote some way on a legislative matter, or whether it was something not very pleasant, you will also recall that one or more persons failed to do it. they failed to do it for enough different reasons that we statisticians might just say it was "due to chance."

When I look at a 7% default rate from this "5% due to chance" perspective, I don't believe we have much of a "default problem" in the GSL Program. We can act to reduce defaults and most of us are taking such actions. But we are not doing so badly right now.

I hope these few facts help you to better understand the default situation and help guide your deliberations on the subject. I'll be pleased to answer any questions you might have about the data.

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TEN FACTS ABOUT DEFAULTS IN
THE GUARANTEED STUDENT LOAN PROGRAM

by

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In recent months considerable attention has been paid to defaulting loans from the Guaranteed Student Loan Program (GSLP). Discussions of the GSLP "default problem" have taken place among lenders, guarantors, Members of Congress, officials of the U.S. Department of Education, financial aid administrators, educational policymakers, media representatives, and the general public. Too many of these discussions are based on misconceptions and mistaken beliefs about the problem, its causes and consequences. Therefore, these discussions generate more contention and heat than consensus and illumination.

Much factual information is available but is not as widely known or disseminated as are misconceptions and misunderstandings. To help remedy this situation and provide factual data to guide future discussions along more productive lines, the following facts have been assembled from several data files and research reports on the subject of GSLP defaults. The sources of the data are identified by footnotes and a corresponding list of references appearing at the end of this report.

Fact One: Default rates in the GSLP are not "soaring", nor are they "out of control."

The default rate data that are reported on the guaranty agencies' quarterly report forms collected by the Department of Education (ED) show that the cumulative dollar value of loans in default as a percentage of all loans in maturity has remained quite stable for the past four federal fiscal years. The percentages are: for 1981, 10.2%; for 1982, 9.3%; for 1983, 9.2%; and, for 1984, 9.4%. Data for net default rates, which take into account repayments on defaulted loans, are similarly stable. The rates are: for 1981, 8.5%; for 1982, 7.4%; for 1983, 7.4%; and, for 1984, 7.5% (Reference 2).

Fact Two: Default claims dollar volumes are growing, but not at an unexpected rate of increase.

Default claims paid annually by guaranty agencies have risen from $222 million in FY 1982 to $444 million in FY 1983 to $591 million in FY 1984. Over 59% of all default claims ever paid by agencies were paid during the three most recent fiscal years. However, this growth in claims payments is not unexpected because 62% of all GSLP loans ever to reach maturity and become due for repayment did so in the same three-year period. Therefore, even had default rates remained constant rather than merely stable, the dollar volumes were expected to grow because so many loans entered repayment status. It is noteworthy that 47% of all GSLP loans ever guaranteed by agencies were guaranteed in the past three fiscal years and over 64% of all loans were guaranteed in the past four years (2).

Fact Three: Even though some borrowers do default on their loans, many dollars of defaulted loan indebtedness eventually are collected.

It is widely assumed that defaulted loan dollars are lost forever and their costs must be borne by taxpayers through expenditures by ED and the guaranty agencies. This is hardly the case.

In fact, $405 million or 17.6% of the $2.303 billion paid in default, death, disability, and bankruptcy claims between November, 1965 and October, 1984, already had been collected by the end of FY 1984. An additional 26.4% or $609 million was due on accounts on which borrowers actively were making repayments and another 7.8% or $180 million of claims debt had been legally discharged through the death, disability, and bankruptcy provisions of GSLP laws and regulations. Therefore, over half the claims had been paid, were in repayment, or had been discharged by law (2). About 18% or $414 million in claims were in litigation. It is reasonable to expect that half of these dollars eventually will be recovered. About 31.2% or $718 million was owed on "unresolved accounts" for which no payments had been made for 120 days (2). Perhaps as much as one-third of those dollars will be collected in the future. Therefore, in all, well over seventy percent of the claims payments have been collected, are likely to be collected from the borrowers, or they will be discharged by legal means.

Fact Four: Borrowers typically do not default on high balance loans.

It is widely believed that borrowers who incur larger levels of loan indebtedness typically default on their loans. This is not the case. The average default claim paid in the GSLP during the past three fiscal years has been: for 1982, $2,646; for 1983, $2,682; and, for 1984, $2,668 (2). These amounts are only slightly above the $2,500 maximum that a student can borrow for one undergraduate year. Data from several research reports and state data files show that very few borrowers default on loan balances of more than $5,000. In Virginia only 10.6% of all defaulters had loan balances greater than $5,000 (7). In Pennsylvania 10.8% of all the defaulters had such higher loan balances (14). In California only 4.8% defaulted on loans balances of $5,000 or more (4). In Vermont 80% of the defaulters had obligations of $3,000 or less (1). In New York the average defaulted loan was $3,183 and in Illinois it was almost $2,900 (13,8). Clearly the loans on which borrowers default are small balance obligations.

It should not be surprising that default loan balances are typically quite small. Students who incur larger loan debt burdens are more likely to have remained in school for more years and, consequently, are more likely to have greater chances to earn higher salaries from which to make loan payments. Furthermore, doubling the loan indebtedness from $3,000 to $6,000 only raises the monthly payments on a typical amortization schedule for an eight percent note from $50 to $72, hardly an amount which would create a significant burden of repayment leading to default.

Fact Five: The borrowers who are most likely to default are those who had extremely limited financial resources at the time they accepted their loans.

Studies of borrower characteristics consistently show that students from very low-income family and personal financial circumstances have a high probability of defaulting on their loans. For example, 36.3% of the Virginia defaulters and 30.7% of the Pennsylvania defaulters reported incomes of less than $5,000 when they accepted their loans (7,14). About 6.3% of the Virginia and 20.3% of the Pennsylvania defaulters reported no incomes on their loan application forms. A national sample of defaulting borrowers revealed that 12.1% had no family incomes and 28.6% had incomes of less than $5,000 (12). While comprehensive data are unavailable for the program in all states, it seems reasonable to estimate that no less than one out of every three defaulting borrowers comes from an extremely limited financial circumstance. Borrowers with no incomes or less than $5,000 income nationally represent at least one-fifth of the current GSLP borrowing population (11,12).

That low-income borrowers have a higher than usual probability of default is not unexpected. Low-income students in general are less likely than other students to complete their educational programs. Thus, it is more difficult for them to obtain jobs and earn enough money to meet loan payments. Even when low-income students do complete their programs, there is evidence that they often find jobs which pay less than those obtained by their more affluent peers and they often have more difficulty in finding jobs and experience longer periods of unemployment (6).

There is a very high correlation between being unemployed and defaulting on a GSLP loan. For example, in New York 66% of the defaulters but only 20% of the borrowers who repaid their loans were unemployed at the time their loans came due (13).

Fact Six: Default rates vary considerably by the types of institutions the borrowers last attended. But these variations are more likely related to the characteristics of borrowers who attend the schools than to characteristics, policies, or practices of the schools themselves.

Much attention has been given to the fact that borrowers who attended two-year colleges, vocational-technical schools, or business and trade schools have higher default rates than borrowers who went to four-year institutions. For example, the default rate for California borrowers who attended four-year colleges is 8.2%; but the rate for borrowers attending two-year private colleges is 14.1%; for those attending community colleges, 23.6%; and, for those attending vocational schools, 24.6% (3). In Virginia only 18% of the direct-lender's (the Virginia Education Loan Association) loans were made to community college, junior college, and business, trade and technical school students but borrowers at these types of schools represented almost 51% of the defaulted accounts (7). A similar experience was observed in Pennsylvania where 23% of all GSLP loans were made to students at two-year colleges and business, trade, vocational, and technical schools but defaulters from these types of schools represehted 54% of all defaulted accounts (14). New York found that vocational school borrowers' default rates were twice as large as the rates of two-year college borrowers (17.2% as compared to 8.6%) and almost four times as large as those of four-year college borrowers (17.2% as compared to 4.8%) (13). Data from a national sample shows that the probability of defaults among business, trade, and technical school borrowers is 22.8%, but the probability of defaults among two-year college borrowers is only 14.4% and, among four-year college borrowers, just 5.4% (12).

The evidence is quite clear that borrowers at less-than-four-year institutions have a higher probability of defaulting on their GSLP loans than do other borrowers, even though the magnitude of the differences may vary from state to state or from study to study. However, the family financial circumstances of students and borrowers attending the less-than-four-year institutions are much different from those of other students. It was noted above that borrowers with low incomes were much more likely than others to default on their loans. The percentage of aid recipients enrolled at the vocational, technical, business, and trade schools who have incomes below $8,000 is about 59% (15). The corresponding percentage of aid recipients enrolled at four-year colleges is 25% and at two-year colleges it is about 37% (10,12,14). Therefore, higher default rates among students at less-than-four-year schools should be expected.

Moreover, graduates of less-than-four year institutions generally have higher unemployment rates immediately upon leaving school and they earn less when they are employed than alumni of four-year colleges (6). Since employment rates and earnings are correlated with loan repayments, one should expect the community college and business, trade, and technical school students to have higher default rates.

Fact Seven: Borrower employment and unemployment experiences are directly related to repayment and default rates.

It is an obvious truism that borrowers cannot repay their loans if they do not have the money to do so. The fundamental reason the vast majority of borrowers default on their GSLP loans is the simple fact that they do not have the financial means to meet the payments. While some observers of GSLP defaults may believe and wish others to believe that defaulting on loans is a consequence of borrower attitudes and unwillingness to accept responsibility for the debt, the empirical data demonstrates otherwise.

The New York study of loan defaulters, repayers, and defaulters who later entered repayment demonstrates the influence of employment and earnings on loan repayments (13). As noted above, 20% of the repayers but 68% of the defaulters were unemployed when their loans came due for repayment. About 52% of the defaulters who later started repaying their loans were unemployed at the beginning of their repayment times. Over a year later when the survey was taken, almost 36% of all the borrowers who initially defaulted on their loans were still unemployed. But only 10% of the repayers were unemployed. The unemployment rate for defaulters who later entered repayment had dropped significantly, from the initial 52% to only 18%. But initial defaulters who still remained in default continued to suffer a high unemployment rate. Only 52% had found employment. Therefore, unemployment is closely and directly related to initial and to continued default. So are monthly earnings and months employed.

Employed repayers at the time of the New York survey had been employed for an average of 26.7 months and were earning an average net monthly income after taxes of $993. Employed borrowers who initially defaulted but were in repayment had worked an average of 22.1 months and had an average net monthly income of $805. Employed defaulters who still remained in default had only worked an average of 19.7 months and earned only $649 dollars per month. So the average employed repayer had worked almost 35% longer and was earning 53% more than the average employed defaulter (13).

This evidence strongly indicates that borrowers who default, and those who continue to remain in default, experience financial difficulty that makes loan repayments very difficult, if not impossible. That over half of all the GSLP borrowers who *ever* have defaulted either have paid their loans in full, have discharged them by the legal provisions of the program, or are in repayment further suggests a willingness to repay loans when borrowers are able to do so. Only 32% of all the default claims ever paid remain in "unresolved accounts" with no payments received on these accounts for over 120 days (2).

Fact Eight: Increased activities by lenders, guarantors, and postsecondary educational institutions to enhance borrower awareness of repayment obligations help to reduce defaults, but probably not by much.

Many participants in and observers of the GSLP have expressed the opinion that increased counseling, communication, and contact with borrowers helps or would help reduce default rates. Their opinions are supported by data that suggest borrowers leaving school are unaware of their obligations to establish loan repayment schedules and begin making monthly payments. For example, over 70% of the Virginia defaulters defaulted because they "failed to convert to repayment" and over 37% of the Pennsylvania defaulters defaulted because they "did not establish payment schedules" (7,14).

That increased communication with borrowers helps reduce defaults is evidenced in data from guaranty agency quarterly report forms that show requests from lenders for "pre-claims" assistance with borrower accounts increased by 122 percent between FY 1982 and FY 1984 and the agencies' aggregate cumulate "cure rates", a measure of their ability to take actions to resolve borrower difficulties and avoid defaults, increased from 52% to 54% (2). This apparently modest percentage increase represents a significant gain in ability to avoid defaults, in view of the fact that more than double the cases were referred to the agencies during this relatively short time period.

The New York study of loan repayers and defaulters found that 80% of the repayers but only 60% of the defaulters were aware of the total loan amounts owed when they left school and that 70% of the repayers but only 40% of the defaulters knew when their loan payments would start (13). These findings suggest that greater awareness of loan repayment obligations is associated with loan repayment. However, in view of the fact that two-thirds of the study defaulters were unemployed at the time their loans reached repayment, it is unlikely that increased awareness of loan obligations would have greatly reduced default rates. The positive effects of borrower awareness of the loan obligation and ready willingness to meet that obligation are in many instances negated by borrower financial handicaps and inability to afford loan payments.

Fact Nine: More first-year students than any other borrowers default on their loans.

The largest number of defaulters spend only one year in postsecondary education and default after dropping out or completing their educational programs. For example, a national study of GSLP defaulters showed that 38.2% of the defaulters had spent only one-year in school (9). New York's study showed that 67% of their defaulters were first-year students (13). Over half the defaulters in Pennsylvania (53%) and in Virginia (54%) were first-year students (14,7).

First-year student borrowers also have higher default rates than do students who spend more years in school (9,13,14).

That students who complete only one year of postsecondary education have higher probabilities of default should surprise no one. Students who complete only one year of school are more likely than other students to be younger, have come from lower-income families, and to have attended less-than-four-year institutions. These three factors are related to employment and earnings potential which are, in turn, related to the ability to make loan payments. Students who spend only one year in school are less likely than others to have completed their degrees or certificate programs which, in turn, affects their earnings ability. Having completed a program is not, however, as closely related to defaulting on a GSLP loan as might be expected. For example, the program completion rates of repayers and defaulters in New York were fairly similar, 80% and 71% respectively (13). Additionally only slightly over half (57%) of the defaulters in Pennsylvania failed to complete their programs of study (14).

The fact that first-year borrowers have higher default rates and represent the largest numbers of defaulting borrowers suggests that financial aid program policies which minimize the necessity of borrowing among these groups of students would significantly reduce default rates for the program. So would extending the "grace period" before the first loan payment is due.

Fact Ten: Default rates and the GSLP "default problem" vary considerably in magnitude from state to state.

Whatever statements or generalizations are made about the GSLP "default problem" from a national viewpoint are very unlikely to apply fully to many specific states. This is because GSLP activities and default experiences are so different among the states. For example, the aggregate default claims rate for the program in FY 1984 was 9.4%. However, the range of claims rates among states was from a low of 1.4% to a high of 19.1% and the average for all states was 7.6% (2,5). Obviously the GSLP "default problem" varies considerably among states.

Differences in default rates among states have been related to differences in the length of time guaranty agencies have operated in those states, to loan guarantee volumes and numbers of borrowers, and to flows of loans reaching maturity or coming due for repayment (5). In general, states with older guaranty agencies and large loan volumes (more than $100 million in guarantees per year) have the highest average default rates but those rates have remained stable over the past four years. States with smaller GSLP volumes generally have the lowest average default rates but those with older agencies are experiencing declining default rates and those with relatively new agencies are experiencing rising default rates as more of their loans are reaching maturity. Default rates among states with new agencies and large volumes fall between the rates of the other three groups (5).

That there are relationships between these variables and default rates in the states does not add much to the understanding of why the rates are so different. State-by-state differences in default rates are very likely primarily a function of differences in borrower characteristics and secondarily a function of differences in policies, practices, and procedures in those states. But research does not exist to prove this is the case. What is known at this point is that low-income borrowers are more likely than other borrowers to default on their loans. It is also known that the proportion of low-income borrowers in different states ranges from a low of about 15% to a high of about 36% (11). Therefore, state-by-state default rates should be inversely related to proportions of low-income borrowers served, that is, the more low-income borrowers served, the larger the default rate. But there is virtually no correlation between these two proportions when they are statistically analyzed. Thus there must be other as yet undiscovered factors which account for differences in state-by-state default rates. As research on the "default problem" continues, some of these factors may be discovered.

The facts as they are now known show that default situations are quite different among the states. These differences suggest that the causes of defaults may differ among states and, more important, that program policies and practices that handle the "default problem" in one state may be ineffective and inappropriate for another.

Conclusion: It is hoped that these basic facts will become more widely known than the several current myths and misconceptions about defaults in the GSL Program. By having factual knowledge and data available to everyone who is concerned about the default problem, more effective solutions will be proposed. Working together toward solutions is far more efficacious behavior than seeking one or more parties to blame for the situation.

RP/Default Facts

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RP/Default Facts

Mr. FORD. Thank you.

I could not agree more with the conclusions that you came up with as a statistician, but I have to tell you that our intuition parts at one point. Mine is jaundiced a little bit by my experience over 20 years with the programs; and that is the chances of any newspaper in this country giving a prominent display to what you have just said and what you have in your appendix to your testimony, "Ten Facts About the Guaranteed Student Loan Program." No matter what your status as a statistician, the chances of that getting any play in the press are zilch.

Mr. DAVIS. OK.

Mr. FORD. What gets the play in the press is the occasional idiot who says I got a Ph.D. and I owe the Government money, but I can't find a job so the hell with them, I am not going to pay. I have actually seen a nationally syndicated and allegedly competent economist of the female persuasion start an article with that very line, and that very statement, which she then went on to say was typical of the attitudes of people who got student loans. I made the mistake of entering into a correspondence with her only to find that I provoked even worse reactions in the future. Because as a man with my many years in a married state I should know not to challenge the preconceived notions of the fair sex, whether they are economists or housewives.

One question I have for you, Mr. Innocenzi, and I, too, agree with almost everything in your recommendations. And as a matter of fact, what you gave me here I have as a gleam in my eye the idea of this reporting at the time of loan origination from the positive side. I am glad you finally put it in that way. But your preliminary language gives me the kind of argument that works best around here. That I can do what I think is right and look like I am going to be tough as hell on these kids. You then did draw the conclusion, however, that there is a positive side, and I think the positive side is worth the effort.

When you talk, however, about a national intrusion upon the laws of garnishment, you do that in two ways. The first was when you talked about the fact that the Federal Government was withholding money from Federal employees who owed Guaranteed Student Loans. You suggested that that authority ought to be given to other agencies.

Mr. INNOCENZI. Yes.

Mr. FORD. However, the essential characteristic that exist in the Federal Government doing this, and I quite agree with you that doing it the way it is done now does constitute a form of discrimination against a Federal employee. However, the characteristic that makes them subject to that is that they are an employee of the same person to whom they owe the money. They are not an employee of the State agency, and none of the borrowers are employees of the State agencies.

I wrote a note in the side here—what about State garnishment laws—because it occurred to me that if we broadly gave the authority we would be creating a super-status for indebtedness to the Federal Government to begin with. That has already been done in some ways and suggested in others. But if, in my State, you had somebody who had multiple debts, there is a limit to how much of the paycheck you can take at any one time, no matter how many debtors are out there. It is the first guy who gets to the pay office with his garnishment who gets the first bite. But we limit the amount by the number of dependent children and other characteristics. That is I think not uncommon across the country. You could garnish my earnings for a much higher percentage now than you could have when I was in a different status with three small children.

If we now superimpose on that a Federal right, say notwithstanding everybody else getting a bite and, as a matter of fact, you do know that there are a number of States that encourage, and indeed compel, wage assignments for child support, you could kill the goose that lays the golden egg by blindly loading this obligation on top of already existing obligations.

If you leave it to using existing garnishment laws as a way to get at somebody's earnings, at least you don't do violence to the wisdom of the several States in this area in trying to protect against garnisheeing somebody out of their job; so they don't have carfare to get to work next Monday. That has really been the justification over the years for those laws.

But then you said that what really ought to be done, and you wisely suggested that this committee doesn't have the jurisdiction to do it. Unfortunately, there are proposals before the committee to have us do it. So I would have to hope that the gentleman from New Jersey wouldn't object to our usurpation of his jurisdiction and object to that being in the bill. That would be the easy way for me to get the monkey off my back. The reason that that committee which deals more than any other committee with the conflicts in laws between Federal and State jurisdictions would have difficulty with it is that you do have to do damage when you get into an area where there is so much difference between States and such a long tradition supporting those differences. It becomes very difficult to write a national garnishment law that would be as acceptable in Michigan or New Jersey as it might be in Mississippi. The traditions and attitudes are very, very different, and I suspect that is where you would find a big difference in the way the garnishment laws are written. So I would have to tell you that I am not very warm to the idea of venturing into that thicket.

Finally, when you talk about the 6-year statute of limitations it is not clear to me—it is apparent to me from your statement, by the way, that your Commission did a very thorough job of looking at this. It is one of the best thumbnail capsulizations of the whole thing that I have seen anywhere. But when you mention establishing a minimum of a 6-year statute of limitations and that this statute is inconsistent among States. Now, when we go to court to collect a Federal loan we don't have that problem, do we? Wouldn't the Federal court recognize the same statute of limitations for bringing suit no matter where it was?

Mr. Innocenzi. We are encountering this problem now, Mr. Chairman, in New Jersey.

Mr. Ford. When you use the term "statute of limitations," you are not talking about any kind of collection activity short of bringing a lawsuit because you can do all the other things indefinitely with or without regard to the statute of limitations. The one thing you can't do is file a suit beyond the period of time specified in the statute of limitations.

Now, what you have got me puzzled about is when the Justice Department takes the 15,000 cases that you heard about this morning, presumably at that stage they will start collection suits across the country in Federal district courts from one end of the country to another. Am I to draw as a conclusion from what you have said that the statute of limitations would vary by the State where the defendant would be found?

Mr. INNOCENZI. That has been the experience we have run into in New Jersey, yes.

Mr. FORD. Well, that might be with respect to collecting the State indebtedness.

Mr. INNOCENZI. We have no statute in New Jersey. Where we have gone into other States the statute has been considerably shorter than 6 years, and therefore our claim has been disbarred.

Mr. FORD. Well, what is it if you use the diversity provisions of the Federal law and go after them in the Federal court? See, you are allowed to sue a citizen of another State in Federal court on what is it, Bill, $2,500? The debt has to be more than $2,500? You then don't have to go to their local court, you can go to the Federal court. Now substantively in determining whether it is or is not a valid debt, the Federal court is bound to apply the State common law and statutory law. However, for the purpose of your standing in court to sue; to wit, the statute of limitations, the Federal court would determine whether or not you could bring it.

Could you check back and see, if we are talking about something here that really has a lot of importance? The reason I say that to you is that this suggestion in the hands of many people in this body will become so delightful a quick-fix that we might be wrestling an awful long time around here to fix something that isn't going to change anything very much. I sort of work I guess the same way as the loan collectors; I don't have a whole lot of interest in sacrificing our ammunition, I prefer big changes that are going to make a difference over little things that just sort of make it nicer.

I wonder if you could check back with your people and give us the benefit of what the dimensions of the problem really are.

Mr. INNOCENZI. Of course.

Mr. FORD. I am not trying to be argumentative or quarrelsome or in any way denigrate the importance of what you said. Because taken in the context of all of the other things you have recommended it ought to be thought through. Taken out of that context and just thrown out by itself it is very tough.

Just as your recommendation on chapter 13 will be taken out of context by someone, even though, as you observed, this committee does not have jurisdiction over bankruptcy. The present change in the bankruptcy law affecting the inability to discharge guaranteed student loans was an amendment put on the floor to a bill out of this committee. That is one way that you avoid all of the committee jurisdictions, and you keep the committee that knows their stuff, if you will, on a particular subject from having any opportunity to look at it. It was modified by the time it got to the other body, primarily because the Judiciary Committees on both sides had an opportunity to influence the people on the other side with an understanding that they had gone a little bit too far. It was adopted the same way as the amendment dealing with draft registration and some others. We are always going to be hit with that. When we do elementary and secondary it is prayer in school and other issues that they throw at us—sex education, secular humanism. We have got that one, unfortunately, in the law now. I told the Deputy Secretary, who told me they had a task force now working on the regulations to define "secular humanism"; that as soon as they had completed that task, I wanted to consult with them to answer the question that has always plagued me since I first heard it posed as a dilemma for philosophers: How many angels can dance on the head of a pin? Because by the time they have come up with an enforceable definition of those words they will have answered that question for the philosophers, one that has caused greater minds than there are in this room to ponder over the ages.

We occasionally get into thoce messes and, unfortunately, we have to anticipate that somebody jumps and says, "Wait a minute. Is there another kind of bankruptcy that we left out?" So I would like also to have—not because we want to legislate on it, but because it will come at me someplace down the road—what you base this on.

You mentioned in New Jersey the increase in the chapter 13's. We had a GAO study that was superficial and got us into trouble with this some time ago. All they did was count the number of guaranteed student loans discharged through bankruptcy. What they did not do was separate those student loans that were a small part of a big indebtedness from those where the student loans are the principal debt being discharged. The impression given, therefore, at the time the House voted on the floor was that people were going out and filing bankruptcy just to get rid of student loans.

We tried to reason through the probability that a business administration graduate with a master's degree might have borrowed everything that the family could give them to start into a business and have gone kaplooey, and he has got to go into bankruptcy. He may not have any choice, as a matter of fact; he may be forced into an involuntary bankruptcy. All the rest of the debts would be discharged within the first 5 years except the guaranteed student loan.

What we were never able to get was a study of the difference. In your chapter 13's—could you have somebody check in New Jersey? In those chapter 13's, what percentage of the indebtedness that was owing by the person who entered the chapter 13 was made up of student loans?

One could conclude in a rather loose way that if the student loans were the largest portion of it that was the motivating factor. If, in fact, it is $30,000 or $40,000, $5,000 of which is a balance on student loans, it is likely that they would be in the chapter 13 no matter what happened. Then that leads you to the additional problem that you suggested with the difference in the consideration of this as an unsecured loan, which is always a problem in either form of bankruptcy, because bankruptcy referees are wont to say we will take care of the secured loans and then, if there is 10 cents on $1 left, we will give it to whoever is left—the doctor, the dentist, and the people who don't have a chattel mortgage.

I didn't do very much bankruptcy. Only in unpleasant cases when I had clients I was advising who weren't making it. I learned all about it in something in Michigan we called the Eisenhower recession in 1958 when I was putting small tool shops into bankruptcies to save their home and save their families. I learned from that experience to see bankruptcy as a very humane way to give people with great ability in our society an opportunity to have that new breath of life and a chance to go on and become producing citizens.

Some of the people that I put in bankruptcy in 1957, 1958, and 1959 are the leading lights of our community. They would not like me to remind them of that period in their lives. But they went on to be successful business people, and I suspect that some of these people that you are talking about will do that also.

As a lawyer I find that citizens would tend to think that anybody that would go into bankruptcy and deprive somebody of their lawful debt is doing something sinful. But as a lawyer who has been on the other side of it, looking at it through the eyes of the person who is caught between the rock and the hard place, I have seen that it frequently turns out some people do it because they are deadbeats. Then they go right out and get credit again because they can't get into bankruptcy for another 6 years. They can go right out and start buying cars and everything else because the lender says, well, they can't run away from me for 6 years.

But most of the ones that I saw from my perspective were really people who needed it. I would like you to back up both of those things. I am not challenging you as to the veracity.

Mr. INNOCENZI. I understand.

Mr. FORD. But expand upon them, what do they really show us?

Mr. INNOCENZI. I shall do that, Mr. Chairman.

[The information follows:]

State of New Jersey
DEPARTMENT OF HIGHER EDUCATION
OFFICE OF STUDENT ASSISTANCE
4 QUAKERBRIDGE PLAZA
CN 540
TRENTON, NEW JERSEY 08625

June 27, 1985

The Honorable William D. Ford
Member of Congress
Subcommittee on Postsecondary
  Education
Cannon House Office
  Building, Room 239
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Ford:

It was an honor for me to testify before your committee on June 19, addressing reauthorization of the Higher Education Act. During my testimony I made eleven recommendations designed to prevent defaulted Guaranteed Student Loans and/or improve the collection of these loans if default were unavoidable. Of the eleven, you had questions on two - Chapter 13 bankruptcy needs to be strengthened and establishment of a minimum six-year statute of limitations - and asked me to provide the Committee with additional information. I hereby submit further testimony to support my position on these two recommendations.

While it is certainly true that indebtedness other than student loans may be involved in a Chapter 13 proceeding, a brief review of our files confirms our position that Chapter 13 as it presently stands presents a desirable loophole for individuals who wish to discharge their educational loans without payment. For the period from September 16, 1981, to June 6, 1985, we have located 26 accounts where all unsecured claims including student loans were paid zero. These 26 accounts amount to a total of $66,810.26, of discharged educational loans without payment. It was interesting to note that the same attorney handled 14 of these accounts, resulting in a total discharged amount of $30,910.26. I enclose these 26 attachments for the Committee's perusal and review.

As public servants concerned with protecting public monies and who seek to conform our practices with sound business principles, we find it distressing that a student loan which is typically the first loan incurred by a debtor and which is guaranteed by federal funds, should be treated as unsecured, nonpriority debt while other loans obtained after this student loan may be afforded priority as secured paper even though the subsequent loans may have forced the debtor into Chapter 13 proceedings. We do not think that this is what Congress intended in enacting the Bankruptcy Amendments Act of 1981: "...There must be room in chapter 13 for the debtor on welfare or old-age assistance who can only pay a nominal amount. There should not be room for the single-payment plan or the new college or the professional school graduate seeking a new start at the expense of his creditors and future generations of students." (see page 19 of Senate Report #97-150 accompanying S. 863, the Bankruptcy Amendments Act of 1981). I can understand the sensitivity associated

New Jersey Is An Equal Opportunity Employer

The Honorable William D. Ford
Page two
June 27, 1985

with legal remedies of debt absolvement and as I indicated during my testimony I am cognizant of this particular issue coming under the jurisdiction of another committee but I felt duty bound to bring this loophole to this committee's attention.

I have advocated a uniform federal statute of limitations of at least six years on defaulted student loans because of an existing discrepancy between the statute of limitations for federal loan notes, e.g., FISL or NDSL, and other types of student loans such as Guaranteed Student Loans (GSL). For federal paper, I am informed that the existing federal statute of limitations is uniform (six years) when judgement is sought in federal court. Since GSL notes are not considered federal paper, a federal court will apply the state statute of limitations of the forum. State statutes of limitations on promissory notes are as short as three years. This situation creates difficulties in collecting defaulted student loans from out-of-state debtors. In addition, the cost of litigation in federal court is higher and may not be handled as expeditiously as a state action. For this reason I ask that a federal statute of limitations of not less than six years be legislated in order to improve our effectiveness in collecting GSL's of debtors residing in other states.

Again, I thank you and the Committee for inviting me as a witness and the opportunity to present this information.

Sincerely yours,

Richard J. Innocenzi

Richard J. Innocenzi, Director
New Jersey Higher Education
Assistance Authority

nlg
Enclosures

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE:

CASE NUMBER

8500696 P-0040
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1368
TRENTON, NJ 08607

JEROME D. & KATHRYN YOUNG
150 SHERMAN AVENUE

TRENTON, NJ 08083
OTHER NAMES USED - NOT YOUNG

85-00696

SSN/ID: 140-46-4720
178-54-1010

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on FEB. 13, 1985
IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
MAR. 19, 1985
TIME
11.30 A.M.

ADDRESSEE

14-

NJ DIVISION OF HIGHER ED.
CN 546

TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON MAY 6, 1985 AT 2.00 P.M.
IN COURTROOM NO. 4, UNITED STATES BANKRUPTCY COURT, 402 EAST STATE STREET, TRENTON, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	***COLLATERAL*** VALUE	TOTAL TO BE PAID	
METROPOLITAN FED. S & L	RESIDENCE		$2,670.00	
FORD MOTOR CREDIT	1983 AUTO		$6,675.00	CRAMDOWN

THE PLAN WILL BE COMPLETED IN 60 MONTHS.

IF NO OBJECTIONS TO CONFIRMATION UNDER RULE 3020(B) ARE FILED AND SERVED ON THE DEBTOR WITHIN 30 DAYS OF THE MAILING DATE OF THIS NOTICE, THE MATTER WILL BE HEARD ON THE CONFIRMATION DATE LISTED ABOVE.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $200.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT M. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
CAMDEN, NJ 08105
609-338-0425

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8500696 14- -3
U S BANKRUPTCY COURT
P O BOX 1368
TRENTON, NJ 08607

DATED FEBRUARY 25, 1985
AT TRENTON, NJ
FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED | PRIORITY | UNSECURED | TOTAL [illegible]

UNITED STATES BANKRUPTCY COURT

5-9-0069-1

DISTRICT OF NEW JERSEY

IN RE

8500025 P-0039
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607

LORRAINE MAURILLA
P O BOX 608
100 SUNSET ROAD
BURLINGTON, NJ 08016

CASE NUMBER

85-00025

SSN/ID: 208-44-3202

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JAN. 3, 1985

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

ROOM 321
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
FEB. 5, 1985
TIME
2.00 P.M.

ADDRESSEE

BURLINGTON COUNTY TRUST
91 EAST MAIN ST.

MOORESTOWN, NJ 08057

5- -3

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held:

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY NOTICE OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
MIDLANTIC BANK	1983 AUTO		$7,741.00

THE PLAN WILL BE COMPLETED IN 60 MONTHS.

IF NO OBJECTIONS TO CONFIRMATION UNDER RULE 3020(B) ARE FILED AND SERVED ON THE DEBTOR WITHIN 30 DAYS OF THE MAILING DATE OF THIS NOTICE, THE MATTER WILL BE HEARD ON THE CONFIRMATION DATE LISTED ABOVE.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $155.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT R. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425 CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8500025 5- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

DATED JANUARY 10, 1985
AT TRENTON, NJ
FOR THE COURT
JAMES J. WALDRON, CLERK

⑤

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8405890 P-0145
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

SSN/ID: 152-36-3559

MELVIN P. JONES
1502 WILDWOOD AVE.
CAMDEN, NJ 08103

CASE NUMBER
84-05890

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on NOV. 7, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
JAN. 3, 1985
TIME
2.00 P.M.

ADDRESSEE

8405890 - 7 BANK

BANK OF NEW JERSEY
RT. 38

MOORESTOWN, NJ 08057

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON JANUARY 9, 1985 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.

THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-

PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.

UNSECURED CLAIMS ARE TO BE PAID ZERO%

FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.

THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION VALUE	TOTAL TO BE PAID
COLONIAL MORTGAGE	1002 WILDWOOD CAMDEN, NJ VALUE $20,000.00	$982.00
SECC	REFRIGERATOR VALUE $200.00	$240.00
FORD MOTOR CREDIT	1981 CHEVETTE VALUE $2400.00	$2872.00

OTHER INFORMATION: CITY OF CAMDEN - WATER/SEWER $500.00

PROPOSED LIFE OF PLAN: 39 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $145.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8405890 7- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED DECEMBER 3, 1984

FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

155-48; 3925 w/N

DISTRICT OF NEW JERSEY

IN RE

8404805 P-0019
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

SSN/ID: [redacted]

JANETTE R. LOWE
105 MEADOWVIEW COURT

LINDENWOLD, NJ 08021
OTHER NAMES USED - JANETTE SCHWARTZ

CASE NUMBER

84-04805

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other persons in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on SEP. 7, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
OCT. 25, 1984
TIME
2.00 P.M.

ADDRESSEE

8404805 - 2 NJNE

NJNEAA
CN 547

TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362 AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held ON OCTOBER 31, 1984 AT 10.00 A.M. AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET, CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
[illegible] CLAIMS ARE TO BE PAID [illegible]
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
NATIONAL BANK OF GLOUCESTER COUNTY	1982 HONDA ACCORD		$4,788.00

PROPOSED LIFE OF PLAN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $200.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT N. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8404805 2- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED SEPTEMBER 24, 1984

FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	[illegible]

BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8404716 P-0077
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

SSN/ID: 259-70-5923

CLYDE MC GRIFF
2919 S. MITCHELL STREET

CAMDEN, NJ 08105

CASE NUMBER

84-04716

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on SEP. 5, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
OCT. 25, 1984
TIME
2.00 P.M.

ADDRESSEE

8404716 - 6 B J

B J H E A A
CN 547

TRENTON, NJ 086350547

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) and against certain codebtors as provided in 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON OCTOBER 31, 1984 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID [illegible]
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
KAY JEWELERS	MANS RING		$54.00

PROPOSED LIFE OF PLAN - 36 MONTHS

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $50.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT N. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8404716 6- -J
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED SEPTEMBER 13, 1984

FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL AMT

530 BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY Legal

IN RE

8404715 P-0057
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

DAVID R. & DEBORAH L COLES
3093 STEVENS STREET
CAMDEN, NJ 08105

CASE NUMBER
84-04715

SSN/ID: 146-60-0885
155-58-1762

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C.chapter 13 having been entered on a petition filed by the above debtor(s) on SEP. 5, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
OCT. 11, 1984
TIME
2.00 P.M.

ADDRESSEE

8404715 - 2 NJ H

NJ HIGHER EDUCATION ASSIST
CN 574

TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON OCTOBER 24, 1984 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO%
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
NORWEST MORTG	3039 STEVENS STREET		$5,075.00

PROPOSED LIFE OF PLAN - 52 MONTHS

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $120.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT R. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425 CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE
SIDE IN DUPLICATE WITH
8404715 2- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED SEPTEMBER 13, 1984

FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL AMT'S

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8404118 P-0064
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

LIZZIEL SULLIVAN
33 MAGNOLIA COURT
SICKLERVILLE, NJ 08081

CASE NUMBER
84-04118

SSN/ID: 140-46-7622

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on AUG. 1, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
SEP. 13, 1984
TIME
2.00 P.M.

ADDRESSEE
8404118 - 4 STAT

STATE OF N.J.
HIGHER EDUCATION ASSIST.
CN 00538
TRENTON, NJ 08638

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON SEPTEMBER 26, 1984 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO%
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
VETERANS ADMIN.	33 MAGNOLIA CT. SICKLERVILLE, NJ	$7,000.00	
WINSLOW CROSSING HOME OWNER	SAME AS ABOVE	$200.00	
LITTMAN JEWELERS	RING & CHAIN	$116.00	

PROPOSED LIFE OF PLAN 60 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $140.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID F. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8404118 4- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED AUGUST 13, 1984

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

CASE NUMBER

8403551 P-0141
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

MARGARET D. BUNDY
1756 PERSHING STREET
CAMDEN, NJ 08104

84-03551

SSN/ID: 151-54-5970

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JULY 2, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
AUG. 16, 1984
TIME
2.00 P.M.

ADDRESSEE

8403551 - 7 N.J.

N.J. HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN 547
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON AUGUST 22, 1984 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET.
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO%
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
PB MORTGAGE CO.	1756 PERSHING ST. CAMDEN, NJ		$3,000.00

STUDENT LOAN HELD BY NJ HEAA SHALL BE DISCHARGED DUE TO HARDSHIP
11USC SEC. 523 (A) (8) (B)
PROPOSED LIFE OF PLAN 60 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $65.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT R. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
CAMDEN, NJ 08105
609-338-0425

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8403551 7- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED JULY 18, 1984

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

8403279 P-0077
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607

SSN/ID: 162-22-9534

IN RE:
DAVID B. RITTER
29 HARMON LANE

WILLINGBORO, NJ 08046

CASE NUMBER

84-03279

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JUNE 18, 1984
IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
JULY 17, 1984
TIME
1.00 P.M.

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

ADDRESSEE

N.J. DEPT. OF HIGHER EDUCATION 5-
CN 546

TRENTON, NJ 08625

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT
A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE
ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE
COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION
OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION
OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
KISLAK ORGANIZATION	RESIDENCE		$9,000.00

THE PLAN WILL BE COMPLETED IN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE
FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO
CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED;
LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL
INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $300.00 MONTHLY TO BE DISTRIBUTED
BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT M. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425 CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8403279 5- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

DATED JUNE 23, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL CLAIMS

⑬

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8402327 P-0213
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

SSN/ID: 155-34-1762

WETHAN F LANGSTON
1502 LOUIS STREET 6/32
CAMDEN, NJ 08105

CASE NUMBER
84-02327

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other persons in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on MAY 1, 1984
IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. 341(a) shall be held at

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
3RD FLOOR, REAR
CAMDEN, NJ

DATE
JUNE 21, 1984
TIME
2:00 P.M.

ADDRESSEE
8402327 - 4 NJ H
NJ HIGHER ED. ASSISTANCE
225 W. STATE STREET
CN 547
TRENTON, NJ 08638

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. 362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. 1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON JUNE 27, 1984 AT 10:00 A.M.
AT U.S. TRUSTEE, HEARING ROOM , 745 MARKET STREET
3RD FLOOR, REAR, CAMDEN, NJ

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID 0 %
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY NOTICE OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
BANKERS MORTGAGE	1502 LOUIS STREET CAMDEN, NJ	$8000.00	
CITY OF CAMDEN	WATER/SEWER	$800.00	

NJHEAA AND GLASSBORO STATE COLLEGE SHALL NOT RECEIVE ANY DIVIDENDS DUE TO THE DEBTOR'S DISTRESSED FINANCIAL CONDITION; THEIR DEBTS SHALL BE DISCHARGED PURSUANT TO THE HARDSHIP PROVISIONS OF 11USC 523 (A) (8)

PROPOSED OF LIFE OF PLAN 60 MONTHS.
ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $180.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT B. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8402327 4- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED MAY 11, 1984

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

BEST COPY AVAILABLE

840306 100   86

DISTRICT OF NEW JERSEY

IN RE

8401046 P-0097
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1560
TRENTON, NJ 08607

MICHAEL A. GILLESPIE
315 N. 37TH STREET
CAMDEN, NJ 08105
SSN 150-40-5702 AND - -

CASE NUMBER
84-01046

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on MAR. 1, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT

A meeting of creditors pursuant to title 11 U.S.C. § 341(a) shall be held at

U. S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
APR. 12, 1984
TIME
2.00 P.M.

[illegible]
8401046 - 5 -3 NJ N
NJ HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN546
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held ON MAY 21, 1984 AT 2.00 P.M.

AT COURTROOM 84, U S COURT HOUSE
402 E. STATE STREET, TRENTON, N.J.

ALL PAPERS IN THIS PROCEEDING MUST BE FILED IN TRENTON.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.

THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
CENTRAL MORTGAGE CO.	RESIDENCE		$3,700.00

THE PLAN WILL BE COMPLETED IN 60 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: - DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $90.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE   ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0415   CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH

U S BANKRUPTCY COURT
P O BOX 1560
TRENTON, NJ 08607
ON OR BEFORE

DATED MARCH 6, 1984   FOR THE COURT

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

831019 305 06

DISTRICT OF NEW JERSEY

IN RE

8305597 P-0210
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1560
TRENTON, NJ 08607

PATRICIA GANTT
1327 DAYTON STREET
CAMDEN, NJ 08104
SSN 153-40-8099

CASE NUMBER
83-05597

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on SEP. 30, 1983

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

U. S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
NOV. 17, 1983
TIME
1.00 P.M.

ADDRESSEE

8305597 - 6 -3 N.J.
N.J. HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN 547
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON DECEMBER 12, 1983 AT 2.00 P.M.
AT COURTROOM #4, U S COURT HOUSE
402 E. STATE STREET, TRENTON, N.J.
ALL PAPERS IN THIS PROCEEDING MUST BE FILED IN TRENTON.

SUMMARY OF PROPOSED PLAN

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. SEC. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	PAYMENTS PER MONTH	TOTAL TO BE PAID
KISLAK ORGANIZATION	RESIDENCE		$95.83	$5,750.00

THE DEBTOR PROPOSES TO AVOID THE FOLLOWING LIEN: R. H. MACY CO.
THE PLAN WILL BE COMPLETED IN 60 MONTHS.
OTHER INFO-CITY OF CAMDEN - WATER/SEWER - $102.40, NJHEAA SHALL NOT RECEIVE ANY DIVIDENDS PURSUANT TO ITS STUDENT LOAN. THE LOAN SHALL BE DISCHARGED PURSUANT TO 11 USC SEC. (A)(8)(B).

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $129.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-9425 CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH

U S BANKRUPTCY COURT
P O BOX 1560
TRENTON, NJ 08607
ON OR BEFORE

DATED OCTOBER 19, 1983 FOR THE COURT

FOR THE COURT
CLIFFORD P. SIBSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DUE

81-0566 [illegible] $183.40 8

BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P.O. BOX 1433
CAMDEN, NJ 08101

IN RE [illegible]

[illegible]
[illegible]
[illegible], NJ [illegible]
SSN 276-53-[illegible]247 AND 441-52-6[illegible]27

CASE NUMBER
81-[illegible]

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAYS

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JUN. 24, 1981

IT IS ORDERED, AND NOTICE IS HEREBY GIVEN, THAT:

A meeting of creditors pursuant to title 11 U.S.C. § 341(a) shall be held at:

ROOMS ASSEMBLY ROOM
SECTION [illegible]
401 MARKET STREET
CAMDEN, NJ

OCT. 2, 1981
TIME
1:30 P.M.

YOUR ACCT [illegible]

8105023 -S -3 [illegible]
HOWARD SAVINGS BANK
768 BROAD STREET
NEWARK, NJ 07101

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

At the meeting the creditors may file their claims, examine the debtor, and transact such other business as may properly come before the meeting.

As a result of the filing of the petition, certain acts and proceedings against the debtor and his property are stayed as provided in 11 U.S.C. § 362(a) and against certain codebtors as provided in 11 U.S.C. § 1301. Significant parts of these sections are reproduced on the reverse side of this notice.

In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim, whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 6 months after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law.

A hearing on confirmation of the plan will be held ON NOVEMBER 19, 1981 AT 10:00 A.M.

AT BANKRUPTCY COURT, FEDERAL BLDG., 401 MARKET ST., CAMDEN, NJ 08101

*** SUMMARY OF PROPOSED PLAN ***

THIS IS [illegible] THE COMPLETE [illegible]
THE [illegible] RIGHTS OF CREDITORS WILL BE [illegible]
THE COMPLETE PLAN [illegible] BY THE COURT.
THE PLAN PROPOSES [illegible] TRUSTEE [illegible]
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. SEC. 507 [illegible] ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	** COLLATERAL ** DESCRIPTION	VALUE	PAYMENTS PER MONTH	TOTAL TO BE PAID
BANK OF NJ -	1980 [illegible]		$182.73	$4931.[illegible]

PROPOSED LIFE OF PLAN - 4[illegible] MONTHS

THE DEBTOR PROPOSES PAYMENT OF $121.00 MONTHLY TO BE
DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM IS SCHEDULED AS UNSECURED AT -
TRUSTEE - [illegible], P.O. BOX 15[illegible]
[illegible] [illegible], NJ [illegible]
ATTORNEY FOR DEBTOR - [illegible], 3300 FEDERAL ST
[illegible] CAMDEN, NJ [illegible]

FILE CLAIMS AND ACCEPTANCES OR REJECTIONS OF PLAN IN DUPLICATE WITH THE CLERK OF THE BANKRUPTCY COURT AT

8105023 S- -3
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P.O. BOX 1433
CAMDEN, NJ 08101

DATED SEPTEMBER 16, 1981

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8500540 P-0073
S BANKRUPTCY COURT
S COURTHOUSE
O BOX 1568
RENTON, NJ 08607

SS/ID: 157-54-3662
157-56-21[illegible]6

HENRY STEVEN & KIM OLINSKY
41 WHITE STREET

MOUNT HOLLY, NJ 08060
OTHER NAMES USED - KIM ANN OLINSKY

CASE NUMBER

85-00540

ORDER FOR MEETING OF CREDITORS. COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on FEB. 4, 1985

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
MAR. 5, 1985
TIME
10.30 A.M.

ADDRESSEE

N.J. HIGHER EDUCATION
ASSISTANCE AUTHORI
CN 547
TRENTON, NJ 08625

15- -3

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON MAY 6, 1985 AT 11.00 A.M.
IN COURTROOM NO. 4, UNITED STATES BANKRUPTCY COURT, 402 EAST STATE STREET, TRENTON, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

HIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE
TTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE
OMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
HE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
RIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
[illegible]CURED CLAIMS ARE TO BE PAID ZERO
[illegible] PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION
F PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION
BJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
HE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
AN MORTGAGE CO.	RESIDENCE		$5,142.08

HE PLAN WILL BE COMPLETED IN 36 MONTHS.

F NO OBJECTIONS TO CONFIRMATION UNDER RULE 3020(B) ARE FILED AND SERVED ON THE
EBTOR WITHIN 30 DAYS OF THE MAILING DATE OF THIS NOTICE, THE MATTER WILL BE
EARD ON THE CONFIRMATION DATE LISTED ABOVE.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENTS OF $142.83 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - ROGER C. INNES, 496 NORTH KINGS HIGHWAY
609-667-1155
CHERRY HILL, NJ 08034

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8500540 15- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

DATED FEBRUARY 11, 1985
AT TRENTON, NJ
FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY Dif 452

IN RE

CASE NUMBER

8404150 P-0071
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1560
TRENTON, NJ 08607

PATRICK & MARIA BIRCHE
306 3RD STREET
WARETOWN, NJ 08758

84-04150

SSN/ID: [illegible]
[illegible]-50-5891

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, the creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above named debtor on AUG. 2, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. § 341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
SEP. 11, 1984
TIME
11.30 A.M.

ADDRESSEE

8-

N.J. HIGHER ED. ASSOC.
CN 547

TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
CENTRAL MORTGAGE CO.	RESIDENCE		$5,406.18

THE PLAN WILL BE COMPLETED IN 36 MONTHS.
OTHER INFO-NJ DIVISION OF TAXATION AND OCEAN TWP. MUA TO BE PAID IN FULL AS PRIORITY CREDITORS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $167.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT R. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - OTTO JAMES KOSTBAR, 782 ROUTE 9
201-269-2100 BAYVILLE, NJ 08721

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8404150 8- -3
U S BANKRUPTCY COURT
P O BOX 1560
TRENTON, NJ 08607

DATED AUGUST 7, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

DISTRICT OF NEW JERSEY

3740 P-0245
KRUPTCY COURT
COURTHOUSE
O BOX 1568
ENTON, NJ 08607

N/ID: 154-66-2604
136-38-0264

6/84

~~SINSEN~~ & GERALDINE TYLER (POSEY)
88 SANNICAN DRIVE
TRENTON, NJ 08618
OTHER NAMES USED - SINSEH E. TYLER
GERALDINE C. TYLER

CASE NUMBER
84-03740

ORDER FOR MEETING OF CREDITORS COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, its creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JULY 11, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

8/14
DATE
AUG. [illegible], 1984
TIME
1.00 P.M.

ADDRESSEE

ATTY-

SAMUEL H. DAVIS
1925 RT. 27
P.O. BOX 362
EDISON, NJ 08818

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED in 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT
A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

HIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE TTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE OMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
HE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
RIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
NSECURED CLAIMS ARE TO BE PAID ZERO
OR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION F PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION BJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
HE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
ARSON MORTGAGE CO.	RESIDENCE		$4,246.12
NITED SAVINGS & LOAN	RESIDENCE		$1,357.60

ROAD STREET NATIONAL BANK - CAR PAYMENT - IS CURRENT & WILL BE KEPT CURRENT Y DIRECT PAYMENTS OUTSIDE THE PLAN.
HE PLAN WILL BE COMPLETED IN 36 MONTHS.

NY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE ILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO ONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $172.95 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

TRUSTEE - ROBERT M. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - SAMUEL H. DAVIS, 1925 RT. 27
201-985-8300 P.O. BOX 362, EDISON, NJ 08818

JUL 23 1984

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8403740 ATTY- -A
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

DATED JULY 17, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

[illegible] CLAIMS LISTED BY THE DEBTOR

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS
33,851.10		16,842.00	50,693.10

BEST COPY AVAILABLE

DISTRICT OF NEW JERSEY

RECEIVED
BROAD STREET NAT'L BANK
JUL 23 1984
CREDIT
DEPARTMENT

CASE NUMBER
84-03740

8403740 P-0251
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1566
TRENTON, NJ 08607

SSN/ID: 154-86-2604
138-38-0264

IN RE
SINBER & ~~GERALDINE~~ TYLER
68 SANNICAN DRIVE

TRENTON, NJ 08618
OTHER NAMES USED - SINBER E. TYLER
GERALDINE C. TYLER

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, the creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JULY 11, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
AUG. 7, 1984
TIME
1.00 P.M.

ADDRESSEE

2- -

BROAD STREET NATIONAL BANK
P.O. BOX 8308

TRENTON, NJ 08605

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	***COLLATERAL*** VALUE	TOTAL TO BE PAID
LARSON MORTGAGE CO.	RESIDENCE		$4,246.12
UNITED SAVINGS & LOAN	RESIDENCE		$1,357.60

BROAD STREET NATIONAL BANK - CAR PAYMENT - IS CURRENT & WILL BE KEPT CURRENT BY DIRECT PAYMENTS OUTSIDE THE PLAN.
THE PLAN WILL BE COMPLETED IN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENTS OF $172.95 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS SECURED

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - SAMUEL H. DAVIS, 1925 RT. 27
201-985-8300 P.O. BOX 362, EDISON, NJ 08818

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8403740 2- -1
U S BANKRUPTCY COURT
P O BOX 1566
TRENTON, NJ 08607

DATED JULY 17, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS
			(7)

BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8403480 P-0088
NKRUPTCY COURT
EDERAL BLDG., 401 MARKET ST.
. O. BOX 3497
AMDEN, NJ 08101

SN/ID: 142-36-2790

BARBARA JUDITH MARTIN
871 VAN HOOK STREET

CAMDEN, NJ 08104
OTHER NAMES USED - BARBARA JUDITH THOMAS

CASE NUMBER

84-03480

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JUNE 27, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
AUG. 16, 1984
TIME
11.30 A.M.

ADDRESSEE

8403480 - 3 BANK

BANK OF NEW JERSEY
PERSONAL CREDIT DIV, BOX 430
ROUTE 38 & EASTGATE DRIVE
MOORESTOWN, NJ 08057

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON AUGUST 22, 1984 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

HIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE
TTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE
OMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
HE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
RIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
NSECURED CLAIMS ARE TO BE PAID ZERO%
OR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION
F PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION
BJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
HE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	---COLLATERAL--- DESCRIPTION	VALUE	TOTAL TO BE PAID
ITY OF CAMDEN			

ROPOSED LIFE OF PLAN - 36 MONTHS

By

RECEIVED
JUL 17 1984
THE BANK OF NEW JERS.
RECOVERY DEPT.

NY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE
ILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO
ONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $63.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT M. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - JOHN F. RODGERS, JR, ESCUIRE, SUITE 24, HADEN BUILDING
807 HADDON AVENUE, HADDONFIELD, NJ 08033

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8403480 3- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED JULY 11, 1984
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

BEST COPY AVAILABLE

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8402697 P-0220
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607

SSN/ID: 190-44-6327

MARILYN TUCKER /
164 RANCOCAS ROAD
MT. HOLLY, NJ 08060

CASE NUMBER
84-02697

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on MAY 17, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
JUNE 19, 1984
TIME
10.30 A.M.

ADDRESSEE

N.J. HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN 547
TRENTON, NJ 086
6-

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDE IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

A HEARING ON CONFIRMATION OF THE PLAN WILL BE SET AT A LATER DATE.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
ADVANCE MORTGAGE CO.	RESIDENCE		$14,996.50

THE PLAN WILL BE COMPLETED IN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $490.63 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT K. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - BRAD J. SPILLER, 126 N. BROADWAY
609-541-8744
CAMDEN, NJ 08102

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8402697 6- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

DATED MAY 24, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

840313 241 86

DISTRICT OF NEW JERSEY

IN RE

8301127 P-0013
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607

STEPHEN C & ~~ARLENE~~ AUSTIN, III
4607 NEW BRUNSWICK AVENUE
PISCATAWAY, NJ 08854
SSN 137-40-2184 AND 139-44-7589*

CASE NUMBER
83-01127

THIS CASE WAS CONVERTED TO CHAPTER 13 BY ORDER DATED 2/1/84

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on FEB. 24, 1983

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. § 341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
APR. 3, 1984
TIME
11.30 A.M.

ADDRESSEE
8301127 - 4 -
NJ HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN 548
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. § 362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. § 1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON MAY 21, 1984 AT 9.30 A.M.
AT COURTROOM NO 4, US COURT HOUSE
402 EAST STATE STREET, TRENTON, NJ

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.

THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-

PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.

UNSECURED CLAIMS ARE TO BE PAID ZERO

FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.

THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
SECURITY PACIFIC	MARITAL HOME	$50.00	$3,300.00
CARTERET SAVINGS & LOAN ASS.	MARITAL HOME	$350.00	$7,727. INCLUDES ESTATE TAXES TO TWP.

ATTY FOR DEBTORS WILL RECEIVE $510. FROM SUMS DEPOSITED WITH TRUSTEE THIS A PRIORITY PAYMENT AND SHALL NOT EFFECT TOTAL AMOUNT PAID TO SECURED CREDITORS
CURRENT PAYMENTS TO SECURED CREDITORS WILL BE MADE BY DEBTORS
PLAN WILL BE COMPLETED IN 60 MONTHS

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENTS OF $400.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT M. WOOD, 176 RIVERSIDE AVE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DON H. SALSKY, 1340 STELTON ROAD
PISCATAWAY, NJ 08854

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:

8301127 4- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607
TRENTON, NJ 08607

DATED MARCH 13, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK
BANKRUPTCY JUDGE

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

UNITED STATES BANKRUPTCY COURT

840110 151 86

DISTRICT OF NEW JERSEY

IN RE

8307232 P-0022
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607
AND - -

~~ROBERT C~~ WAITE
ELIZABETH WAITE
25 MILES AVENUE
BORDENTOWN, NJ 08505
142-42-2

CASE NUMBER
83-07232

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C.chapter 13 having been entered on a petition filed by the above debtor(s) on DEC. 23, 1983

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
JAN. 31, 1984
TIME
10.30 A.M.

ADDRESSEE
8307232 - 3 -
N.J. HIGHER EDUCATION
ASSISTANCE AUTHORITY
CN 548
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED in 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED in 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held ON APRIL 9, 1984 AT 9.30 A.M.
AT COURTROOM NO 4, US COURT HOUSE
402 EAST STATE STREET, TRENTON, NJ

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
GMAC	1982 AUTO	$5,080.00	

ATTORNEY'S FEES OF $51.66 PER MONTH FOR 1ST 6 MONTHS.
THE PLAN WILL BE COMPLETED IN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENTS OF $166.36 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - MURRAY GENDZEL, 3673 QUAKERBRIDGE ROAD
TRENTON, NJ 08619

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8307232 3- -3
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607
TRENTON, NJ 08607

DATED JANUARY 10, 1984
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK
BANKRUPTCY JUDGE

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS

DISTRICT OF NEW JERSEY

IN RE

8404383 P-0096
ANKRUPTCY COURT
EDERAL BLDG., 401 MARKET ST.
. O. BOX 3497
AMDEN, NJ 08101

ROBERT OSBAN MORRIS
131 NORTH 25TH STREET
CAMDEN, NJ 08105

CASE NUMBER
84-04383

SN/ID: 136-38-4884

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on AUG. 16, 1984

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
JAN. 17, 1985
TIME
11.30 A.M.

ADDRESSEE
8404383 - 5 FIDE
FIDELITY BANK & TRUST CO.
4900 STATE HWY. #70
PENNSAUKEN, NJ

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON JANUARY 23, 1985 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

HIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE TTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE OMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
HE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
RIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
[illegible]SECURED CLAIMS ARE TO BE PAID NONE
[illegible] PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION F PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION BJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
HE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
ANUFACTURERS HANOVER ORTGAGE CORP. (FNMA)	PRINCIPAL RESIDENCE		$2,018.58

ROPOSED LIFE OF PLAN: 36 MONTHS.

NY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE ILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO ONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $66.39 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT K. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - DONALD B. TAGGART, JR. ESQ., SENTRY OFFICE PLAZA, SUITE
609-854-5700
216 HADDON AVE., WESTMONT, NJ 08108

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8404383 5- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED JANUARY 2, 1984

FOR THE COURT
JAMES J. WALDRON, CLERK

SECURED	PRIORITY	UNSECURED	TOTAL DEBTS
[illegible]		[illegible]	[illegible]

UNITED STATES BANKRUPTCY COURT

831220 239   86   DISTRICT OF NEW JERSEY

IN RE

JAMES J. SUPINSKI
~~[illegible]~~ J. SUPINSKI
4 PALMER ROAD
KENDALL PARK, NJ 08824
SSN 156-40-0463 AND 157-46-0924

CASE NUMBER
83-07091

8307091 P-0202
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 1568
TRENTON, NJ 08607

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:
An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on DEC. 14, 1
IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:
A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
JAN. 10, 1984
TIME
10.30 A.M.

ADDRESSEE
8307091 - AT
GERALD D. GOLDSTEIN
ONE RACETRACK ROAD
EAST BRUNSWICK, NJ 08816

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:
The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.
AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362 AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held ON MARCH 19, 1984 AT 9.30 A.M.
AT COURTROOM NO 4, US COURT HOUSE
402 EAST STATE STREET, TRENTON, NJ

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
CITY FEDERAL S & L	RESIDENCE		$7,800.00
HILLSBOROUGH NAT. BANK	RESIDENCE		$1,666.44

THE DEBTOR PROPOSES TO AVOID THE FOLLOWING LIENS: 1ST NATIONAL BANK OF CHICA
SEARS, ROEBUCK & CO.
OTHER INFO-HERITAGE BANK NORTH SHALL RECEIVE REGULAR PAYMENTS OUTSIDE OF PLA
THERE ARE NO ARREARS.
THE PLAN WILL BE COMPLETED IN 36 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.
DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENTS OF $292.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701
ATTORNEY FOR DEBTOR - GERALD D. GOLDSTEIN, ONE RACETRACK ROAD
EAST BRUNSWICK, NJ 08816

DATED DECEMBER 20, 1983
AT TRENTON, NJ
FOR THE COURT

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH:
8307091 ATTY- -A
U S BANKRUPTCY COURT
P O BOX 1568
TRENTON, NJ 08607

91013 124 01

DISTRICT OF NEW JERSEY

IN RE

8305606 P-0307
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P.O. BOX 2067
CAMDEN, NJ 08101

DOUGLAS E. BICKINGS
14 MAPLE AVENUE

NEWFIELD, NJ 08344
SS# 194-46-4175

CASE NUMBER
83-05606

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

[illegible]

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

[illegible]

SEP. 30, 198

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
NOV. 17, 1983
TIME
1.00 P.M.

8305606 - 4 -3 FIRS
FIRST NATIONAL BANK
IN NEWFIELD
18-24 WEST BLVD.
NEWFIELD, NJ 08344

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR, AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION, CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVI[illegible] 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON DECEMBER 19, 1983 AT 9.30 A.M.
COURTROOM NO. 4, U.S. COURT HOUSE, 402 EAST STATE STREET, TRENTON,
W JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. SEC. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO %
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	*** COLLATERAL *** DESCRIPTION	VALUE	PAYMENTS PER MONTH	TOTAL TO BE PAID

TAL MONEY TO BE PAID TO PRIORITY CREDITORS: $1,107.34

PROPOSED LIFE OF PLAN 36 MONTHS.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.
THE DEBTOR PROPOSES PAYMENT OF $36.30 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT H. WOOD, 176 RIVERSIDE AVENUE
RED BANK, NJ 07701

ATTORNEY FOR DEBTOR - ROBERT J. CASELLA, ESQ., 607 LANDIS AVENUE P.O. BOX 78
609-692-6666
VINELAND, NJ 08360

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8305608 4- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101
CAMDEN, NJ 08101

DATED OCTOBER 13, 1983

FOR THE COURT
CLIFFORD P. KIRSCH, CLERK
BANKRUPTCY JUDGE

[illegible] CLAIMS LISTED BY THE DEBTOR	SECURED	PRIORITY	UNSECURED	TOTAL DEBTS
			8,233.71	8,233.71

(27)

8200196
S BANKRUPTCY COURT
S COURTHOUSE
O BOX 156P
ENTON, NJ 08607

~~HOWARD~~ & EVELYN MC BETH
126 COVILLE DR
BROWNS MILLS, NJ 08015
SSN 155-46-9954 AND 141-40-4311

CASE NUMBER
82-00196

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAYS

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above debtor(s) on JAN. 14, 1982

IT IS ORDERED, AND NOTICE IS HEREBY GIVEN, THAT:

A meeting of creditors pursuant to title 11 U.S.C. § 341(a) shall be held at:

ROOM 521
U. S. COURTHOUSE
402 EAST STATE ST
TRENTON, NJ

DATE
MAR. 9, 1982
TIME
2.00 P.M.

8200196 - 5 -
STATE OF NJ
DEPT OF HIGHER EDUCATION
TRENTON, NJ 08625

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT:

The meeting may be continued or adjourned from time to time by notice at the meeting, without further written notice to creditors.

At the meeting the creditors may file their claims, examine the debtor, and transact such other business as may properly come before the meeting.

As a result of the filing of the petition, certain acts and proceedings against the debtor and his property are stayed as provided in 11 U.S.C. § 362(a) and against certain codebtors as provided in 11 U.S.C. § 1301. Significant parts of these sections are reproduced on the reverse side of this notice.

In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim, whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 6 months after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law.

A hearing on confirmation of the plan will be held ON APRIL 19, 1982 AT 9.30 A.M.
AT COURTROOM NO 4, US COURT HOUSE
402 EAST STATE STREET, TRENTON, NJ

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR APPEARS AND OBJECTS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS -

NAME OF CREDITOR	** COLLATERAL ** DESCRIPTION	VALUE	PAYMENTS PER MONTH	TOTAL TO BE PAID
MORTGAGE ASSOC				$4544.23
FINANCE AMERICA				$ 156.76

THE PROPOSED LENGTH OF THE PLAN IS 37 MONTHS

THE DEBTOR PROPOSES PAYMENTS OF $150.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.
THIS CLAIM WAS SCHEDULED AS UNSECURED

TRUSTEE - ROBERT P. WOOD, P.O. BOX 159
1-747-4411 SEA GIRT, NJ 08750
ATTORNEY FOR DEBTOR - ALLEN A. ETISH, 535 COOPER ST
9-365-2700 CAMDEN, NJ 08102

FILE CLAIMS AND ACCEPTANCE OR REJECTION OF PLAN IN DUPLICATE WITH THE CLERK OF THE BANKRUPTCY COURT AT

8200196 5- -3
U S BANKRUPTCY COURT
U S COURTHOUSE
P O BOX 156P
TRENTON, NJ 08607

DATED JANUARY 28, 1982
AT TRENTON, NJ
FOR THE COURT
CLIFFORD P. KIRSCH, CLERK

CLAIMS LISTED BY THE DEBTOR

38,095.11		3,795.11	41,890.22

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

IN RE

8502594 P-0109
BANKRUPTCY COURT
FEDERAL BLDG., 401 MARKET ST.
P. O. BOX 3497
CAMDEN, NJ 08101

ROSETTA BOYD
823 BENTLEY ROAD
LINDENWOLD, NJ 08021

CASE NUMBER
85-02594

SSN/ID: 136-42-3784

ORDER FOR MEETING OF CREDITORS, COMBINED WITH NOTICE THEREOF AND OF AUTOMATIC STAY

To the debtor, his creditors and other parties in interest:

An order for relief under title 11 U.S.C. chapter 13 having been entered on a petition filed by the above-named debtor on MAY 17, 1985

IT IS ORDERED AND NOTICE IS HEREBY GIVEN THAT:

A meeting of creditors pursuant to title 11 U.S.C. §341(a) shall be held at

U.S. TRUSTEE, HEARING ROOM
745 MARKET STREET
2ND FLOOR, REAR
CAMDEN, NJ

DATE
JUNE 27, 1985
TIME
2.00 P.M.

ADDRESSEE
8502594 - 5 NJHE
NJHEAA
4 QUAKERBRIDGE PLAZA
HAMILTON TWP., NJ 08690

The debtor shall appear in person at that time and place for the purpose of being examined.

YOU ARE FURTHER NOTIFIED THAT

The meeting may be continued or adjourned from time to time by notice at the meeting without further written notice to creditors.

AT THE MEETING THE CREDITORS MAY FILE THEIR CLAIMS, EXAMINE THE DEBTOR AND TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

AS A RESULT OF THE FILING OF THE PETITION CERTAIN ACTS AND PROCEEDINGS AGAINST THE DEBTOR AND HIS PROPERTY ARE STAYED AS PROVIDED IN 11 U.S.C. §362(a) AND AGAINST CERTAIN CODEBTORS AS PROVIDED IN 11 U.S.C. §1301. In order to have his claim allowed so that he may share in any distribution from the estate, a creditor must file a claim whether or not he is included in the list of creditors filed by the debtor. Claims which are not filed within 90 days after the above date set for the meeting of creditors will not be allowed, except as otherwise provided by law. A hearing on confirmation of the plan will be held

ON JULY 3, 1985 AT 10.00 A.M.
AT UNITED STATES BANKRUPTCY COURT, 401 MARKET STREET,
CAMDEN, NEW JERSEY.

*** SUMMARY OF PROPOSED PLAN ***

THIS IS A SUMMARY ONLY. A COPY OF THE COMPLETE PLAN MAY BE OBTAINED FROM THE ATTORNEY FOR THE DEBTOR. THE RIGHTS OF CREDITORS WILL BE GOVERNED BY THE COMPLETE PLAN AS IT MAY BE CONFIRMED BY THE COURT.
THE PLAN PROPOSES DISTRIBUTIONS BY THE TRUSTEE AS FOLLOWS-
PRIORITY CLAIMS AS DEFINED BY 11 U.S.C. 507, IF ANY, ARE TO BE PAID IN FULL.
UNSECURED CLAIMS ARE TO BE PAID ZERO%
FOR PURPOSES OF 11 U.S.C. 1325-A-5, THE COURT WILL ACCEPT THE DEBTORS VALUATION OF PROPERTY SPECIFIED HEREIN UNLESS THE SECURED CREDITOR FILES A TIMELY MOTION OBJECTING TO CONFIRMATION AND APPEARS AT THE CONFIRMATION HEARING.
THE PLAN PROPOSES TO AFFECT SECURED CREDITORS AS FOLLOWS-

NAME OF CREDITOR	***COLLATERAL*** DESCRIPTION	VALUE	TOTAL TO BE PAID
SECURITY S&L	823 BENTLEY STREET LINDENWOLD, NJ		$13,000.00

PROPOSED LIFE OF PLAN 60 MONTHS.

ANY OBJECTION TO CONFIRMATION MUST COMPLY WITH RULES 3020(B) AND 9014 AND BE FILED WITH THE COURT AND SERVED ON THE DEBTOR AND TRUSTEE 10 DAYS PRIOR TO CONFIRMATION.

DEBTOR MUST BRING TO MEETING COPIES OF: DEEDS TO REAL PROPERTY OWNED; LATEST REAL ESTATE TAX BILL SHOWING ASSESSMENT; LATEST FILED FEDERAL INCOME TAX RETURN; MOST RECENT PAY STUB.

THE DEBTOR PROPOSES PAYMENT OF $260.00 MONTHLY TO BE DISTRIBUTED BY THE TRUSTEE.

THIS CLAIM WAS SCHEDULED AS UNSECURED AND

TRUSTEE - ROBERT M. WOOD, 200 ATLANTIC AVENUE
POST OFFICE BOX I, MANASQUAN, NJ 08736

ATTORNEY FOR DEBTOR - DAVID P. DANIELS, 3300 FEDERAL ST
609-338-0425
CAMDEN, NJ 08105

FILE CLAIM FORM ON THE REVERSE SIDE IN DUPLICATE WITH
8502594 5- -3
BANKRUPTCY COURT
P. O. BOX 3497
CAMDEN, NJ 08101

DATED JUNE 6, 1985

FOR THE COURT
JAMES J. WALDRON, CLERK

State of New Jersey
DEPARTMENT OF HIGHER EDUCATION
OFFICE OF STUDENT ASSISTANCE
4 QUAKERBRIDGE PLAZA
CN 540
TRENTON, NEW JERSEY 08625

July 23, 1985

The Honorable William D. Ford
Chairman
Committee on Education and Labor
Subcommittee on Postsecondary Education
320 Cannon House Office Building
Washington, DC 20515

Dear Congressman Ford:

Thank you for your recent letter requesting additional information to support our opinion that Chapter 13 provides a convenient method for individuals to discharge student loan indebtedness.

It is our opinion that Chapter 13 provides a mechanism to enable debtors to completely discharge their student loan obligations. Admittedly, many of these cases also involve indebtedness in other areas as well as educational loans. While the percentage of all loans not paid because of the use of Chapter 13 is only .60 of all of the loans in default serviced by the Authority, we feel that this is a loophole which should be closed. Further, while we do not keep specific statistics regarding the percentage of indebtedness owed by persons entering Chapter 13 that was made up of student loans, we have encountered cases where the student loan was as low as 10 percent of the total indebtedness, and have seen other cases where the student loan was as high as 75 percent of the total indebtedness. Therefore, we maintain our concern that Chapter 13 provides easy access to a discharge of student loan indebtedness.

I hope this has been responsive to your questions in this area.

Sincerely yours,

Richard J. Innocenzi

Richard J. Innocenzi, Director
New Jersey Higher Education
Assistance Authority

RJI:dr

New Jersey Is An Equal Opportunity Employer

Mr. Ford. The statistician has been sitting there kind of smiling because I am sure that in his profession he recognizes that when you get a raw statistic and don't break it down you can often draw conclusions from it that are not quite what you would really like them to be. I wouldn't do that if I agreed with the thrust of what you are doing. I am only asking it nitpicky because I am hoping that your numbers are going to show us that it is not all that bad.

Thank you very much, gentlemen, and thank you for your patience in staying so long.

The committee is adjourned.

[Whereupon, at 2 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Guaranteed Student Loans—Volume 1

THURSDAY, JUNE 20, 1985

House of Representatives,
Subcommittee on Postsecondary Education,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2261, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Hayes, Solarz, Penny, Coleman, Gunderson, Henry, Goodling, and Petri.

Staff present: Thomas R. Wolanin, staff director; Kristin Gilbert, clerk; Maryln McAdam, legislative associate; Rich DiEugenio, minority senior legislative associate, and Rose DiNapoli, minority legislative associate.

Mr. Ford. I am pleased to call to order this hearing of the Subcommittee on Postsecondary Education of the U.S. House of Representatives to continue our hearings on reauthorization of the programs contained in the Higher Education Act.

This week we will conclude a total of six hearings on the Guaranteed Student Loan program made necessary by the fact that we consider it the most complex of all of the programs in that entire package. Our discussion today will focus on the issues of guarantee agency administration, financing, advances, insurance premiums, reserves, reinsurance and administrative allowance. Having read that list, I am willing to suggest that there are very few, if any, Members of the Congress beyond the confines of this committee who has ever heard of those terms much less have any concern about them. They think that we just have a simple program where somebody gets the money someplace and pays it back someplace and there is nothing in between. We are privileged to have people who have spent a good deal of time in making preparation to make clear to this committee and on the record what each of these functions is and what, if anything, needs to be done about changing them when they are continued.

Before yielding to other members for any comments they might wish to make, I want to make the same announcement I have made at each of these hearings, and that is that we are unable to accommodate everyone who would like to appear on a panel. That does not mean that there is anyone who has an idea that we don't want to hear from. I invite everybody who is here, or who hears about the hearing, or has any interest in this subject matter to submit any comments they may have, or suggestions or criticisms, and they will be included in the record, which will be held open for 1 month.

Yesterday, a suggestion was made by one of the panels, and I made the observation that I was sure that before I left the room somebody would catch me and explain why it couldn't be done, and sure enough that happened. So between here and the door a good idea gets mauled when it gets thrown out here. I found that the audience is full of very sophisticated people who are watching and listening very carefully, and they react very quickly. That is one of the pleasant aspects of dealing with this subject matter.

Bill, would you like to make some comments?

Mr. **Goodling.** No. I think I will run and vote and come right back.

Mr. **Ford.** All right. The first panel is Mr. William Gainer of the General Accounting Office, accompanied by who, Bill? Would you identify them for the record?

STATEMENT OF WILLIAM J. GAINER, ASSOCIATE DIRECTOR, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JOSEPH J. EGLIN, GROUP DIRECTOR; AND FRANK FULTON, PROJECT MANAGER, ATLANTA REGIONAL OFFICE

Mr. **Gainer.** Yes; on my left is Jay Eglin, Group Director for all education-related work at GAO, and on my right, Frankie Fulton, from our Atlanta Regional Office, who was the project manager on this job.

Mr. **Ford.** Without objection, the prepared testimony and appendixes will be inserted in the record in full at this point, and you may proceed to summarize it or comment on it in any way that you find most convenient.

Mr. **Gainer.** Thank you, sir.

We are going to talk today about our review of the guarantee agencies under the GSL Program, which is the largest of six student aid programs administered by the Department of Education. We are currently working on three reviews of this very important program. The first of these, which we will discuss today, concerns the basic structure and operation of the guarantee agencies with emphasis on how agencies are financed and how they accumulate, maintain, and use their reserves.

In fiscal year 1984 the GSLP accounted for about 3.4 million loans totaling $7.9 billion. A major objective of this particular student aid program has been reached now since every State, district, and territory has created or designated a guarantee agency. The guarantee agency, as you know, is the middleman of the GSLP between the Department and the lenders that originate loans. In this role the guarantee agency insures loans made to students, seeks to encourage student access to funds while assuring that lenders, students and schools adhere to the requirements of the program. In doing so, however, the agencies have considerable flexibility in carrying out their responsibilities, and I believe that this work and the other work we have done shows there is considerable variation in the way that those duties are carried out.

Guarantee agencies are funded through a variety of sources, but fundamentally their funds come from the State government, the Federal Government, collections from student borrowers and insurance premiums, and the agency's own investment income. State appropriations are really a minor source of funds. Federal funds consisting of advances, administrative cost allowances and the reinsurance or reimbursement for claims paid provide more than two-thirds of all guarantee agency revenues.

Federal advances are essentially non-interest-bearing loans subject to return at the discretion of the Secretary. Of the $147.4 million advanced since the program was begun, $120.4 million of those advances are still outstanding. The administrative cost allowance, which is to cover a portion of the agency's operating costs, is limited to actual costs up to 1 percent. The guarantee agency's largest source of financing is the reimbursement of claims paid, which is known as reinsurance, and reinsurance accounted for 62 percent of agency operating income during fiscal year 1984.

Funds obtained through student borrowers include collections on defaulted loans and the so-called insurance premium. By statute guarantee agencies are entitled to retain a portion of collections with the remainder remitted to the Department. In fiscal year 1984 these collections accounted for 11.5 percent of the guarantee agency operating funds. The other source of student-provided funds, the insurance premium, is essentially a user fee that the guarantee agency charges to its lenders. Since the lenders discount their loans to pay for this premium, it is actually paid for by the students when they begin to repay their loans.

The final source of agency funding is income earned on investments, on its surplus funds, which accounted for 5.6 percent of all guarantee agency revenues in 1984.

The funds are used for one of four purposes: to pay claims, to remit to Education their portion of collections, operating costs and certain other expenses. The largest expenditures, of course, are to pay claims to lenders which accounted for 74 percent of all agency expenditures in 1984. Education's share of collections accounted for 9 percent of all agency expenditures. Operating costs, including salaries, equipment and rent, comprised 14.9 percent of all agency expenditures during 1984.

Since most of these expenditures are fully reimbursed, agencies typically enjoy a surplus. In fiscal year 1984, agencies' sources of funds were $1.06 billion while their expenditures were $897 million creating a 1-year surplus of $166 million.

In recent years considerable attention has been focused on guarantee agency reserves which are growing as a result of these operating surpluses. According to Education's statistics, the agencies reported reserves of $841 million at the end of fiscal year 1984, which was an increase of 55 percent over 2 years prior to that.

Are these reserves too large? Neither the Department nor the guarantee agencies have clear criteria for determining the size of reserves. Nor do the Education Act or Education's regulations provide guidance. We believe that guarantee agency reserves should be related to the risks that they are asked to assume and, consequently, that those reserves are now probably higher than they need to be. One reason for this is that most guarantee agencies' funds result from reimbursement for specific expenses. For example, as I noted earlier, the payments referred to as reinsurance are reimbursements for claims paid on defaulted loans, and the portion of collections retained by agencies are really reimbursements for the cost of making those collections.

Reserve funds are needed, however, to cover certain contingencies. Specifically, agencies face three possible risks: net losses on insurance claims which can occur; administrative cost allowances and other income might not cover all operating expenses', and slow reimbursements from Education can result in short-term negative cash flow.

We did not attempt to determine the exact amount a guarantee agency might require in reserves since this would require detailed projections of future agency cash flows. However, the total sources and uses of funds for all agencies for fiscal year 1984 would appear to indicate that agency reserves, which were $841 million, were much larger than needed.

Looking at the three risks faced by the agencies, we identified a total of $86.6 million in possible losses in 1984. These were made up as follows: claims paid for the year were $663.5 million while reinsurance was only $659 million, for a shortfall of $4.5 million during the year. The agencies also lost $48.8 million on their operating and other costs as compared to their ACA reimbursement. Finally, while not actually a loss, the net amount Education owed these agencies increased by $33.3 million during the fiscal year which necessitates agencies to fund that amount of money for some period of time.

As an offset to these "losses" the agencies had other sources of funds, though. For example, insurance premiums for the fiscal year were $123.5 million and investment earnings were $59.4 million, for a total of $183 million from these sources, and this far exceeded the losses due to the three forms of risk. In addition, the agencies were holding $103 million in Federal advances.

Summing up our reasoning on reserves, most agency costs are reimbursed and those not reimbursed are generally covered by other income. Even if agencies were not running surpluses, the actual losses to which agencies have been exposed are much lower than the amounts held in reserve.

I would like to deal with one other topic. During our review we noted instances in which guarantee agencies used funds for purposes not related to their loan insurance programs. In two instances we brought the practice to the attention of the agencies, and they have since returned to the funds to the reserves. But a more important example was one agency which used GSLP funds to help finance a State grant program. The Department of Education's Office of the Inspector General questioned this action; however, the Department ruled that its regulations allow this use of GSLP funds for nonprogram purposes once an agency has repaid its Federal advances. This was the case in this particular instance.

Education officials said that they intend to revise their regulations to prevent GSL funds from being used for nonprogram purposes, but have not done so as yet.

What is needed? We believe that guarantee agencies should have enough funds to carry out their responsibilities and that current program rules governing guarantee agency financing and reserves should be modified to provide that agencies do not generate unnecessary income or reserves.

First, agencies could be required to use funds generated through their loan programs for program purposes only, which the Department has said it intends to do.

Second, limits could be placed on the amount of reserve funds considering the risks that guarantee agencies are asked to assume. We believe that Education with assistance from the individual guarantee agencies is in the best position to determine the reserves necessary.

Third, once an agency's reserves have reached a predetermined level the agency could be required to return its Federal advances. After all advances were returned, if an agency still continued to run a surplus in excess of what it needed, agencies could begin to restrict the growth of their income or the Department could require them to do so.

Mr. Chairman, that concludes my abbreviated statement. If you have any questions, we would be happy to address them at this time.

Mr. FORD. The three specific recommendations that you make on pages 12 and 13, could all of those now be accomplished by the Department through regulation?

Mr. GAINER. I think in the case of one item in particular the Secretary would have to be given statutory authority to recall advances when reserves reach a predetermined level. Actually the advances can be recalled by the Secretary now. They have never done it. But we think some statutory authority is needed.

Would you like to talk about that Frankie?

Mr. FULTON. The 422(a) advances can be recalled at the Secretary's discretion. The Secretary has never set rules related to the return. The 422(c) advances are the problem because there is a statutory formula on that, and the statutory formula as we see it now would probably never be reached the way the program is going. That would have to be revised to allow the Secretary to have discretion to recall those also based on the new reserve limits.

Mr. FORD. Would you be willing to hazard a try at suggesting to us a statutory change that would accomplish that without so narrowly circumscribing the Secretary that he would put an agency out of business?

Mr. GAINER. I think in fact——

Mr. FORD. I am asking if you could help us fashion some language that would direct him to do what you think ought to be done, but leave him in a position so he doesn't in doing that hit somebody with peculiar circumstances and put them out of business.

Mr. GAINER. We would be happy to try and do that, sir.

Mr. FORD. The Department has indicated to you that they intend to change in compliance with your first recommendation?

Mr. GAINER. Yes, sir.

Mr. FORD. For requiring the use of funds generated through their loan programs for program purposes only?

Mr. **Gainer**. Yes, sir. We have not seen any draft regulations on that. We don't know of any time schedule. And I don't think we have a sense that that is going to occur in the near future. I suspect that might be something you would also want to consider for legislation.

Mr. **Ford**. How much could we recover if we did those things that you are recommending here, if we did them all in one year?

Mr. **Gainer**. If you were to recapture all of the administrative cost allowance, and we think that could probably be done over a period of a few years, you are talking about—excuse me. If you were to recapture all the advances, which we think you could do over a period of 2 or 3 years, you would be talking about $120 million.

As regards administrative cost allowance, which is one way of reducing income, you might be able to come up with $20 million, or $30 million, or $40 million, or $50 million per year over a period of time until the reserves were in balance. Until the reserves were in balance with what was needed.

Mr. **Ford**. Thank you very much.

You used the expression in summarizing your answer to the question you posed: Are the reserves too large? I think your words were they are now higher than they need to be. Is there a practical way to develop a yardstick that apparently does not now exist, or at least a relevant one does not exist, to determine what a reasonable level of reserves would be?

Mr. **Gainer**. We have not done that. I think it is a combination of looking at the risks that the agencies face. It is partially a problem of counting the potential cost flow, and also some actuarial work to look at the losses that an agency might incur as a result of a reduction in the claims paid by the Department. That risk of losses in claims has in the past been a very small one compared to the reserves. In 1984 it was $4.5 million. That part of the problem, that actuarial part of the problem is fairly complicated, but given past history it is also not a large part of the problem.

The cash flow risks that they face and the other risks that they face which account for most of the amounts of money that they might have to cover during a given year are the largest amount of the funds but also the simplest to understand. So I think the methodology could probably be worked out pretty easily by the Department.

Mr. **Ford**. Thank you. We would like to work with you on this and develop this a little more finely.

Mr. **Gainer**. I should say that I think some of the agencies have been working on formulas for creating an ideal reserve given their particular situations, and I think that methodology which is used by the State of Texas would be one possibility to look at. I think the Department ought to have its own position when it goes in to talk to a specific agency, so they would need to come up with a model of this. But I think our sense is that there ought to be some give and take between the Department and the agencies in arriving at a specific number because the circumstances are different in each State.

Mr. **Ford**. Thank you very much.

Mr. Goodling?

Mr. **Goodling**. Thank you, Mr. Chairman.

Just one question, or a series all wrapped up in one. You touched on the answer to what I am going to ask you I think in your testimony, but let me read this paragraph and have you respond to it.

Since 1976 most State guarantee agencies have matured and by 1982 all States had such agencies. The question that has been raised by some now is whether or not the Federal Government is being too generous now that these agencies have become institutionalized. Do the inducements that have been provided for guarantee agencies to get started now make sense in the current environment? Can the system be made more lean without destroying the ability of State guarantee agencies to function?

Mr. **Gainer**. I think on the first part of that question sort of on the level of principle I think you have a fairly strong and robust structure there, and I think it might be at a point where the Department or the Congress would want to see a little more in the way of clearcut operating procedures for the agencies. For example, agencies are provided with a great deal of discretion in how they protect the Federal interest, and the behavior or the performance of those agencies in collections and other important functions varies all over the map. So that there might be a need now in changing the rules just a little bit to provide a little tighter guidance or parameters within which those agencies should operate.

As regards whether or not the Government is too generous, I think our feeling is that with the large reserves and the surpluses they run every year there is probably room there to back off on the Federal investment without necessarily passing the costs on to the student. Where that line is in any given agency may be somewhat complicated to draw, but we don't think it is such a tough problem that it is beyond the ability of the Department to do so.

Mr. **Goodling**. In other words, it is something the Department can do without any legislation?

Mr. **Gainer**. With very limited legislation. For example, the one form of advances would need legislation to recapture. But I think the Department has a great deal of discretion to back off on the costs that it is now paying without legislation.

Mr. **Goodling**. Thank you, Mr. Chairman.

Mr. **Ford**. Mr. Petri?

I have just been handed a set of figures from the College Board by State showing total loans in default, total Federal reinsurance, average percentage reinsured, and then the percentage at 100 percent, 90 percent, and 80 percent. Only one State fell into the 80 percent bracket, and that was California. About seven or eight fell into the 90 percent bracket, and the rest of them were in the 100 percent bracket. When you get down to the bottom line of this, you will find that in the real world the Federal Government was reinsuring 98.5 percent on all of them. So that the quick figure that suggests itself to me is that we are dealing with a 1½ percent figure here, and these numbers generate a much larger figure than that in one way or another finding its way into reserves.

Mr. **Gainer**. That is right. I think the only real risk that agencies face is the amount of insurance risk that they have to pick up and that is, as you note, rather small because of the formula under which it is figured.

Mr. FORD. Now, this is only for fiscal 1984, and we would have to have some verification whether that was a pattern that had developed over a period of time that was likely to continue or not and be sure that we weren't dealing with some peculiarity of 1984.

Mr. FULTON. I believe our figures on 1984 and I would like to check this for the record, but our figures on 1984 showed 15 agencies that actually fell down to the 90 percent level and that 2 agencies fell to the 80 percent level.

Mr. FORD. This has only 10—oh, wait a minute—13. Who was the other that fell below the 80 besides California?

Mr. FULTON. I believe the Virgin Islands fell, also, to the 80 percent level in August of 1984.

Mr. FORD. The College Board didn't pick them up.

Mr. GAINER. Our information is based on the Department's figures, and we think they are pretty accurate.

Mr. FORD. Well, this kindles my interest. I will put these numbers in the record at this point, so you will have a chance to go over them. But we would like to have you folks spend a little time with staff——

Mr. GAINER. We would be happy to compare them to our——

Mr. FORD [continuing]. Majority and minority staff, and help us work through this. This kindles a kernel of some ideas with me on solving a big problem we may have when we go to reconciliation. A partial solution for it.

Thank you very much—oh, I am sorry, Mr. Gunderson, I didn't see you.

Mr. GUNDERSON. That is all right; I came in late. That is fine.

Mr. FORD. Thank you very much, gentlemen.

Oh. We are getting a big attendance here. I have been alone for so long, Steve, that I got out of the habit of looking over my shoulder.

Mr. SOLARZ. Well, I have no questions at this time, Mr. Chairman, but I appreciate the courtesy.

Mr. FORD. Thank you very much.

[Prepared statement of William J. Gainer follows:]

PREPARED STATEMENT OF WILLIAM J. GAINER

Under the Guaranteed Student Loan Program (GSLP), 58 state and private nonprofit guarantee agencies insure loans for the nation's postsecondary students, with reinsurance by the Department of Education (ED). These agencies, financed through a mixture of funds provided by state governments, the federal government, student borrowers, and the agencies' own operations, have insured more than $42 billion under the GSLP, with $7.9 billion in fiscal year 1984 alone.

GAO is conducting a series of reviews of the GSLP. In the first review, GAO studied the operations of guarantee agencies, particularly in the area of financing and reserves. In analyzing the complex financing structure and large reserve balances that currently exist, GAO concluded that improved federal criteria are needed to ensure that guarantee agencies have enough funds to cover their needs but are not allowed to build unnecessarily large reserves at the expense of student borrowers or the federal government.

The Department of Education, in conjunction with the guarantee agencies, should determine how much an agency needs in reserves and should set limits to control unnecessary increases in reserve levels. To do this, the Congress would have to give the Department authority to establish points at which (1) federal advances would be returned and (2) limits would be placed on certain sources of funds which go into the reserves.

U.S. GENERAL ACCOUNTING OFFICE
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STATEMENT OF
WILLIAM J. GAINER, ASSOCIATE DIRECTOR
HUMAN RESOURCES DIVISION

BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
HOUSE COMMITTEE ON EDUCATION AND LABOR
ON
GUARANTEE AGENCY FUNDING, OPERATIONS, AND
RESERVES UNDER THE GUARANTEED STUDENT LOAN PROGRAM

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our review of guarantee agencies under the Guaranteed Student Loan Program (GSLP). The GSLP is the largest of six student aid programs administered by the Department of Education under title IV of the Higher Education Act of 1965.

We are currently working on three reviews of GSL guarantee agency operations. The first of these--which we will discuss today--concerns the basic structure and operation of the guarantee agency, with emphasis on how agencies are financed and how they accumulate, maintain, and use reserve funds. Our other reviews are assessing (1) the extent to which guarantee agencies ensure that lenders perform due diligence on loans submitted for claims and (2) the adequacy of guarantee agencies' collection efforts on defaulted loans which they hold.

BACKGROUND

In fiscal year 1984, the GSLP accounted for 3.4 million loans totaling $7.9 billion. The vast majority--94.8 percent--of these loans were made under the "regular" GSL program as administered by state and private nonprofit guarantee agencies. The Federally Insured Student Loan program, now being phased out, accounted for only 0.5 percent of total GSLP loan volume. The remaining loans were made under the Parent Loans to Undergraduate Students program, which provided 4.7 percent of total GSL volume.

A major objective of the GSL program has been reached now that every state, district, and territory has created or designated a guarantee agency. In total, 47 organizations serve as the guarantee agencies for 58 separate reporting units under the GSLP. The differences in the number of organizations and number of reporting units are because two large private nonprofit agencies--the Higher Education Assistance Foundation and the United Student Aid Funds--serve as the designated guarantor for more than one state.

The guarantee agency is the "middleman" of the GSLP, between the Department of Education and lenders. In this role, the guarantee agency insures loans lenders make to students and seeks to encourage student access to loans while assuring that lenders, students, and schools adhere to the requirements of the GSLP. Agencies have considerable flexibility in carrying out their responsibilities and may establish their own procedures and rules as long as they are consistent with federal requirements.

By the end of fiscal year 1984, guarantee agencies had insured a cumulative total of 22.1 million loans, totaling $42.8 billion, thus accounting for 85.3 percent of all loans made under the GSLP. Of this total, $34.7 billion in loans were outstanding at September 30, 1984.

SOURCES AND USES OF GUARANTEE AGENCY FUNDS

Guarantee agencies are funded through a variety of sources, with each source having its own set of requirements on how and for what it is to be used. In general, however, guarantee agency funds come from one of four sources:

--the state government,

--the federal government,

--the student borrower, and

--the agency's own investment income.

State appropriations are a minor source of funds. In fiscal year 1984, only 10 agencies reported receiving state appropriations. In that year, state appropriations accounted for only 1.5 percent of all guarantee agency funds.

Federal funds, consisting of advances, administrative cost allowance (ACA) reimbursements, and reinsurance (reimbursements for claims paid), provided more than two-thirds of all guarantee agency revenues in fiscal year 1984. Federal advances are essentially noninterest-bearing loans. Under some circumstances they are subject to return at the discretion of the Secretary of Education, while in other cases they are recallable based upon a statutory formula. Of the $147.4 million advanced since the beginning of the GSL program, $120.4 million, or 81.7 percent, were outstanding at April 30, 1985.

Education pays the guarantee agencies an administrative cost allowance to cover a portion of the agencies' operating costs. The yearly allowance is limited to actual costs up to 1 percent of the principal amount of loans guaranteed by each agency.

The guarantee agencies' largest source of financing is the reimbursement of claims paid on defaulted loans from the Department of Education, known as reinsurance. Reinsurance accounted for 62 percent of guarantee agency income during fiscal year 1984. In most cases, guarantee agencies receive 100 percent reimbursement on all claims paid, although the reinsurance rate can be reduced (to 90 percent or 80 percent) for all those claims paid during a fiscal year after the agency's claims rate reaches a statutory limit.

Funds obtained from student borrowers include collections on defaulted loans and the so-called "insurance premium." By statute, guarantee agencies are entitled to retain (1) up to 30 percent of all collections on defaulted loans to cover collection-related costs and (2) an additional portion on loans which were not fully reinsured. Their remaining collections are remitted to the Department of Education. In fiscal year 1984, collections accounted for 11.5 percent of guarantee agency funds.

The other source of student-provided funds is the insurance premium. This is essentially a user fee that the guarantee agency charges lenders. Since lenders may discount the insurance premium from the loan proceeds, the actual cost is passed on to students. Agencies vary in the premium they charge from nothing at all to 1 percent a year over the life of the loan. In total, insurance premiums accounted for 11.6 percent of agency income during fiscal year 1984.

The final source of agency funding is income earned by investing surplus funds. In fiscal year 1984, investment income accounted for 5.6 percent of guarantee agency revenues.

Guarantee agency funds are used for one of four purposes:

--claims paid,

--remittance of collections to the Department,

--operating costs, and

--other expenses such as fees to lenders.

The largest expenditures are to pay lender claims for borrowers' defaults. As noted earlier, these claims generally are reimbursed fully by the Department. In fiscal year 1984, claims accounted for 74 percent of all agency expenditures.

Education's share of collections are those remitted after the guarantee agency has deducted its collection-related expenses under a statutory formula. These payments accounted for 9 percent of all agency expenditures.

Operating costs include such costs as salaries, equipment, service contracts and rent. Many of these are reimbursed through either the agency's share of collections retained or ACA reimbursement. Operating costs comprised 14.9 percent of all agency expenditures during fiscal year 1984.

Other guarantee agency uses of funds include such items as lender fees, repayment of federal advances, and repayment of state loans. In total, these were just over 2 percent of all expenditures by agencies in fiscal year 1984.

Since most expenditures are fully reimbursed and the agencies have some discretion in charging an insurance premium and earning interest income, the agencies typically enjoy a surplus. In fiscal year 1984, for example, 52 of the agencies reported an operating surplus for the year. In total, the 58 agencies' sources of funds were $1.063 billion while their expenditures were $897 million, creating a one year surplus of $166 million. (A summary of sources, uses, and surplus is included in attachment I.)

GUARANTEE AGENCY RESERVES

In recent years, considerable attention has been focused on guarantee agency reserves which are growing as a result of operating surpluses. The term "reserves" refers to the cumulative surplus of funds which have been generated by the agencies since they started in the program and which are held for contingencies. The Administration has expressed concern over the rapid growth of reserves and has recommended reductions in agency income feeding these reserves. According to Education's statistics, the agencies reported reserves of $841.9 million at the end of fiscal year 1984. This was an increase of 30.8 percent above reserves held at the end of fiscal year 1983 and an increase of 55.3 percent as compared to fiscal year 1982. (A table showing each guarantee agency's reserves in relation to outstanding loan obligations is included in attachment II.)

Are the reserves too large?

Unfortunately, there is no simple answer as to whether the reserves are too large because neither the Department nor the guarantee agencies have clear criteria for determining the size of reserves. Nor do the Higher Education Act or Education's regulations provide any guidance. The regulations do provide that the federal advances to strengthen reserves may be recalled when the Secretary of Education determines they are no longer needed, but provide no effective guidance on how need is to be measured. The Secretary has not exercised this discretion. (A summary of each agency's federal advances in relation to reserves is included in attachment III.)

We believe that guarantee agency needs for reserves should be related to the risks they are asked to assume.

Reserves should be related to agency risk

The Higher Education Act and Education's regulations do not address the overall financing of guarantee agencies as a unified process. Instead, they attempt to control the use of each particular source of funds. The result can be confusing because reimbursement of certain costs may be prohibited from one source of funds but payable from another. Yet every agency expense must be paid from some source of funds and the funds left over generally go into the agencies' reserve funds.

Most guarantee agency funds result from reimbursement for specific categories of expenses. Thus, the payments from the

Education department referred to as reinsurance are reimbursements for claims paid on defaulted loans, and the portion of collections retained are a reimbursement for the cost of making these collections. Federal advances, which are made available to agencies to strengthen their reserves or to pay insurance claims prior to the receipt of reinsurance, are actually federal loans and must be repaid at some point. State appropriations to guarantee agencies may or may not be restricted to specific uses by the various states. Insurance premiums and investment earnings on reserves are not reimbursements but are used to cover those costs not specifically reimbursed by state or federal funds and to assist in building the reserves.

Reserve funds are needed to cover the contingency that, at some point in the future, reimbursements may be inadequate to cover expenses or that such reimbursements will lag behind the actual incurring of costs, which will cause a cash flow problem. More specifically, agencies face three possible risks:

1. Net losses on insurance claims could occur.
2. Administrative cost allowances and other income might not cover all operating expenses.
3. Slow reimbursements from Education could result in short term negative cash flow.

The first risk is that reinsurance will not be paid at 100 percent, since by statute the reimbursement rate for claims paid by an agency can go as low as 80 percent of those claims exceeding the statutory limitation. The risk is moderated somewhat because (1) the rate cannot fall below 80 percent and (2) the claims rate which determines the point at which reinsurance is reduced is calculated anew at the beginning of each fiscal year. Thus, an agency risks losing a portion of full reinsurance for only the remainder of the fiscal year after it exceeds the reimbursement rate threshold. During fiscal year 1984, 15 of the 58 agencies were reduced to 90 percent reinsurance at some point during the year, with the earliest occurring in April 1984. Two of these were subsequently reduced to the 80 percent reinsurance limit, both in August 1984.

The second risk faced by guarantee agencies is that not all operating costs will be offset by either the portion of collections retained or the agency's administrative cost allowance (ACA). This could occur if (1) collection costs are greater than the fee of 30 percent of the amount collected which agencies retain, (2) other operating costs exceed the yearly ACA limit of 1 percent of the amounts guaranteed, or (3) other costs are incurred which cannot be paid for with the ACA.

The third risk involves agency cash flow. At a given time, an agency may owe Education a share of its collections on defaulted loans. At the same time, however, an agency may be awaiting reinsurance payment or its administrative cost allowance from Education for costs already incurred. When the amount Education owes the agency is in excess of what the agency owes Education (which is typical), the agency must use its reserves to cover the shortfall. In essence, such a shortage may always exist, although the amount could fluctuate significantly.

With total agency reserves standing at $841.9 million at the end of fiscal year 1984, Education owed the agencies $160.1 million net of agency funds owed Education.

We did not attempt to determine the exact amount a given guarantee agency might require in reserve, since this would require detailed projections of future agency cash flows. However, the total sources and uses of funds for all agencies as reported for fiscal year 1984 would appear to indicate the reserves were much larger than needed. Looking at the three risks faced by the agencies, we identified a total of $86.6 million in possible losses in 1984.

--Claims paid for the year were $663.5 million while reinsurance was $659 million, for a loss of $4.5 million during the year.

--The agencies also lost $48.8 million on their operating and other costs. These costs were $152.5 million for the year while their net collections (after deducting payments to Education) and ACA reimbursement were $103.7 million.

--And while not actually a loss, the net amount Education owed these agencies increased by $33.3 million during fiscal year 1984, which necessitates that agencies fund this amount for some period.

But as an offset to these "losses" the agencies had other sources of funds. For example, insurance premiums for fiscal year 1984 were $123.5 million and investment earnings were $59.4 million. This total of $182.9 million from these sources far exceeded the losses due to the three forms of risk.

In addition, the agencies received $16.4 million in state appropriations, and were holding $103.3 million in federal advances. In total, reserves were $841.9 million at the end of fiscal year 1984. Even after deducting net amounts owed by ED, "cash" reserves would have been $680.9 million.

This discussion provides a general guide to the magnitude of risks agencies incur, and is useful only in the aggregate because the actual risks may vary from agency to agency. It is also important to note that some agencies are subject to state laws requiring minimum reserve levels. Finally, some agency officials are concerned about the increased need for funds that might result from any changes in the current financing structure of the program.

Summing up our reasoning on reserves, we believe the source and use of funds data which agencies report to Education support our contention that reserves appear high in relation to the risks. Most agency costs are reimbursed and those not reimbursed are generally covered by other income. Even if agencies were not running surpluses, the actual losses to which agencies have been exposed are much lower than the amounts held in reserve.

Some agencies have used GSLP funds for other purposes

During our review, we noted three instances in which guarantee agencies used funds for purposes not related to their loan insurance programs. One agency transferred funds from the

GSLP to other state administrative accounts. Another agency was allowing the state to retain a portion of investment earnings on GSLP reserves. Both of these agencies made corrections after we questioned these practices.

The third agency used GSLP funds to help finance a state grant program. The Department of Education's Office of the Inspector General questioned this action; however, the Department ruled that its regulations allow the use of certain GSLP funds for non-program purposes once an agency has repaid its federal advances, which was the case with this agency. Education officials said they intend to revise their regulations to prevent GSL funds from being used for non-program purposes, but have not yet done so.

What is needed?

We believe that guarantee agencies should have enough funds to carry out their responsibilities and that current program rules governing guarantee agency financing and reserves should be modified to provide that the agencies do not generate unnecessary income or reserves at the expense of either the student borrower or the federal government. Such changes are possible within the existing guarantee agency financing structure and could include the following.

--First, agencies could be required to use funds generated through their loan programs for program purposes only. Also, other than to establish amounts available under particular sources, no practical purpose is served by tying specific uses of funds to specific sources. In our opinion, a better approach would be to specify the permitted uses of funds regardless of the source.

- --Second, limits could be placed on the amount of reserve funds, considering the risks the guarantee agencies are asked to assume. Such limits could be established for each agency based upon its specific circumstances and the risks it faces. We believe that Education, with assistance from the individual guarantee agencies, is in the best position to determine the reserves necessary to insure smooth agency operations.
- --Third, once an agency's reserves have reached a predetermined level, the agency could be required to return its federal advances. After all advances were returned, an agency could begin to restrict the growth of its reserves by reductions in certain sources of funds.

The third measure would require congressional action. Currently, any advances to help an agency pay reinsurance claims are not recallable unless the agency reaches limits established by statute. The Secretary of Education would have to be given statutory authority to recall advances when reserves reach a predetermined level.

Also, the decision to reduce sources of funds once reserves reach satisfactory levels affects basic GSLP policy and would require changes to the Higher Education Act. If the Congress wants to reduce student borrower costs, it could limit an agency's ability to charge an insurance premium. If the Congress wants to reduce federal costs, it could reduce the level of claim reimbursement (reinsurance), reduce ACA reimbursement, or lower the portion of collections which can be retained by the agencies to offset collection costs.

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Mr. Chairman, this concludes my statement. We will be pleased to answer any questions.

ATTACHMENT I ATTACHMENT I

SOURCES AND USES OF FUNDS FOR GUARANTEE AGENCIES - FISCAL YEAR 1984

	Amount (000)		Percent[a]
Sources:			
State appropriations	$ 16,412		1.5
Insurance premium	123,490		11.6
Federal advances	20,357		1.9
Reinsurance	658,960		62.0
Administrative cost allowance	61,898		5.8
Collections	122,336		11.5
Investment income	59,442		5.6
Total sources		$1,062,895	100.0
Uses:			
Claims	663,501		74.0
Operating costs	133,236		14.9
Collections to ED	80,541		9.0
Other	19,282		2.2
Total uses		896,560	100.0
Surplus		$ 166,335	-

[a] Individual items may not total 100 percent due to rounding.

Source: Department of Education's GSLP Data Book, Fiscal Year 1984.

ATTACHMENT II

COMPARISON OF RESERVES WITH OUTSTANDING LOAN BALANCES FOR EACH GUARANTEE AGENCY AS THE END OF FISCAL YEAR 1984

Agency	Outstanding loans (000)	Cash reserves (000)	Percent	Total reservesb (000)	Percent
Alabama	$ 154,003	$ 1,682	1.1	$ 2,293	1.5
Alaska	18,134	168	.9	223	1.2
American Samoa	280	105	37.5	104	37.0
Arizona	[illegible]	1,199	.5	4,367	1.7
Arkansas	131,483	6,512	5.0	6,187	4.7
California	2,471,734	46,140	1.9	57,6[illegible]	[illegible]
Colorado	[illegible]	11,221	3.0	[illegible]	[illegible]
Connecticut	1,307,[illegible]	6,651	.5	12,015	[illegible]
Delaware	105,[illegible]	3,871	3.7	[illegible]	4.0
District of Columbia	[illegible]	7,152	2.8	[illegible]	[illegible]
Florida	[illegible]	4,970	.9	[illegible]	[illegible]
Georgia	[illegible]	11,329	3.3	13,450	[illegible]
Guam	1,181	121	10.3	127	10.7
Hawaii	72,743	1,706	2.4	2,202	2.9
Idaho	77,5[illegible]	1,435	1.8	1,534	2.0
Illinois	2,079,41[illegible]	24,109	1.2	[illegible]	[illegible]
Indiana	[illegible]	11,273	[illegible]	[illegible]	[illegible]
Iowa	501,[illegible]	17,522	[illegible]	[illegible]	[illegible]
Kansas	463,5[illegible]	11,902	2.6	[illegible]	[illegible]
Kentucky	307,[illegible]	6,385	2.1	[illegible]	[illegible]
Louisiana	[illegible]	3,678	1.3	[illegible]	[illegible]
Maine	224,074	5,815	2.6	[illegible]	[illegible]
Maryland	[illegible]	21,818	4.0	[illegible]	[illegible]
Massachusetts	1,632,[illegible]	14,101	[illegible]	[illegible]	[illegible]
Michigan	1,184,0[illegible]	34,887	[illegible]	[illegible]	[illegible]
Minnesota	1,349,[illegible]	32,704	[illegible]	37,747	[illegible]
Mississippi	[illegible]	1,410	[illegible]	2,010	[illegible]
Missouri	467,[illegible]	12,115	2.6	[illegible]	[illegible]
Montana	[illegible]	1,910	[illegible]	[illegible]	[illegible]
Nebraska	322,[illegible]	8,293	[illegible]	[illegible]	[illegible]
Nevada	[illegible]	1,634	[illegible]	[illegible]	[illegible]
New Hampshire	[illegible]	4,065	[illegible]	[illegible]	[illegible]
New Jersey	1,879,443	21,119	1.1	34,845	[illegible]
New Mexico	92,553	2,426	2.6	2,574	[illegible]
New York	5,644,044	73,054	1.3	100,09[illegible]	[illegible]
North Carolina	[illegible]	12,878	5.5	[illegible]	[illegible]
North Dakota	79,790	3,938	4.9	4,456	[illegible]
Northern Marianas	224	104	46.5	105	47.0
Ohio	1,443,852	42,909	3.0	46,525	[illegible]
Oklahoma	170,[illegible]	4,024	2.4	[illegible]	[illegible]
Oregon	307,82[illegible]	7,643	2.5	8,037	[illegible]
Pennsylvania	3,221,[illegible]	65,4[illegible]	2.0	77,513	[illegible]
Puerto Rico	103,5[illegible]	[illegible]	2.4	3,321	[illegible]
Rhode Island	[illegible]	7,613	[illegible]	8,940	[illegible]
South Carolina	[illegible]	2,301	[illegible]	2,470	4.0
South Dakota	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tennessee	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texas	565,2[illegible]	10,909	1.9	13,050	[illegible]
Trust Territories	4,041	95	2.4	165	4.1
United Student Aid Fundsc	[illegible]	2,557	.4	[illegible]	.8
Utah	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Vermont	126,870	1,711	1.3	1,994	1.6
Virgin Islands	—	—	—	—	—
Virginia	602,674	26,823	4.5	29,173	4.8
Washington	[illegible]	4,182	[illegible]	5,367	[illegible]
West Virginia	[illegible]	[illegible]	[illegible]	4,775	[illegible]
Wisconsin	1,048,100	21,587	2.0	27,958	[illegible]
Wyoming	40,488	875	2.2	955	2.4
Totals	$34,698,194	$680,910	2.0	$841,974	2.4

[a] Excludes loans repaid, loans cancelled, and loans for which claims have been paid.

[b] Cash reserves (cumulative surplus of funds) plus net amounts owed by the Department of Education.

[c] USAF reports on national activities not included in statistics for individual states where it is the guarantor.

[d] Statistics for Virgin Islands not available. At the end of fiscal year 1983, outstanding loans were $7,270,395, cash reserves were $305,641 (4.2 percent), and total reserves were $410,932 (5.7 percent).

Source: Guarantee agency quarterly reports for September 30, 1984.

COMPARISON OF FEDERAL ADVANCES OUTSTANDING WITH RESERVES FOR EACH GUARANTEE AGENCY AS OF APRIL 1985

Agency	Cash reserves[a] (000)	Total reserves[a] (000)	Federal advances Amount (000)	Federal advances Percent of cash	Federal advances Percent of total
Alabama	$ 1,682	$ 2,293	$ 1,555	92.4	67.8
Alaska	168	225	85	50.6	37.8
American Samoa	105	106	150	143.0	141.8
Arizona	1,199	4,367	3,214	268.0	73.6
Arkansas	6,512	6,107	279	4.3	4.5
California	46,140	57,644	14,384	31.2	25.0
Colorado	11,291	13,459	5,601	49.6	41.6
Connecticut	6,851	12,015	3,913	57.1	32.6
Delaware	3,871	4,252	417	10.8	9.8
District of Columbia	7,152	8,735	87	1.2	1.0
Florida	4,970	12,281	1,494	30.1	12.2
Georgia	11,329	13,450	2,148	19.0	16.0
Guam	121	127	150	123.9	118.2
Hawaii	1,786	2,202	1,061	59.4	48.2
Idaho	1,435	1,534	335	23.3	21.8
Illinois	24,108	28,450	4,052	16.8	14.2
Indiana	11,275	12,761	2,129	18.9	16.7
Iowa	17,522	19,206	1,310	7.5	6.8
Kansas	11,902	13,299	223	1.9	1.7
Kentucky	6,385	7,823	823	12.9	10.5
Louisiana	3,678	3,959	1,072	29.1	27.1
Maine	5,815	7,388	619	10.6	8.4
Maryland	21,818	29,159	1,034	4.7	3.5
Massachusetts	34,181	43,616	-0-	0.0	0.0
Michigan	34,887	38,538	4,080	11.7	10.6
Minnesota	32,704	37,747	339	1.0	0.9
Mississippi	1,410	2,010	548	38.9	27.3
Missouri	12,115	16,488	6,448	53.2	39.1
Montana	1,910	2,390	819	42.9	34.3
Nebraska	8,293	9,896	139	1.7	1.4
Nevada	1,634	1,885	285	17.4	15.1
New Hampshire	4,065	4,399	397	9.8	9.0
New Jersey	21,119	34,845	6,721	31.8	19.3
New Mexico	2,426	2,574	363	14.9	14.1
New York	73,054	100,093	10,300	14.1	10.3
North Carolina	12,878	13,428	1,016	7.8	7.5
North Dakota	3,938	4,456	235	6.0	5.3
Northern Marianas	104	105	150	144.0	142.5
Ohio	42,909	46,525	2,964	6.9	6.4
Oklahoma	4,024	5,583	689	17.1	12.3
Oregon	7,643	8,037	-0-	0.0	0.0
Pennsylvania	65,409	77,513	13,934	21.3	18.0
Puerto Rico	2,452	3,321	699	28.5	21.0
Rhode Island	7,613	8,940	99	1.3	1.1
South Carolina	2,381	2,470	747	31.4	30.3
South Dakota	7,774	8,526	2,423	31.1	28.4
Tennessee	9,063	9,137	1,403	15.5	15.4
Texas	10,909	13,050	6,437	59.0	49.3
Trust Territories	95	165	150	157.3	90.8
United Student Aid Funds	2,557	5,196	–	0.0	0.0
Utah	7,326	8,798	1,401	19.1	15.8
Vermont	1,711	1,994	574	33.5	28.8
Virgin Islands[b]	–	–	288	–	–
Virginia	26,823	29,173	168	0.6	0.6
Washington	4,183	6,387	6,043	144.5	94.6
West Virginia	3,658	4,775	191	5.2	4.0
Wisconsin	21,587	27,959	4,208	19.5	15.1
Wyoming	875	955	85	9.7	8.9
Totals	$680,910	$841,974	$120,478	17.7	14.3

[a] Reserves at the end of fiscal year 1984.

[b] Statistics for Virgin Islands not available.

Source: Guarantee agency quarterly reports for September 30, 1984; GSLP advance funds report as of April 23, 1985.

REINSURANCE FOR CLAIMS PAID BY GUARANTEE AGENCIES DURING FEDERAL FISCAL YEAR 1984

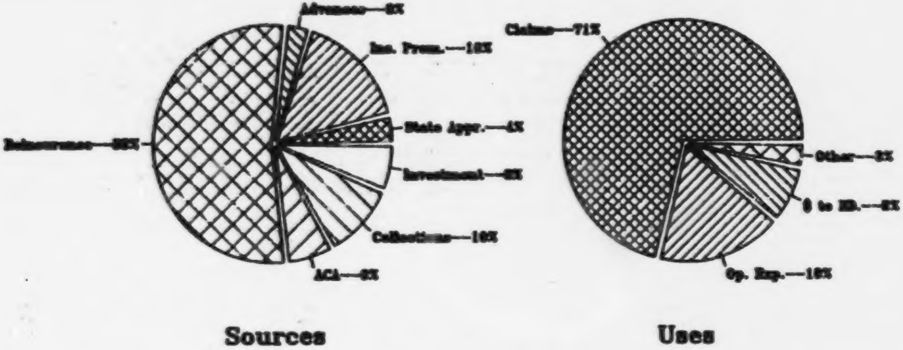
Agency	Claims paid	Reinsurance	Percent	Month in which reinsurance reduced	
				90 percent	80 percent
Alabama	$ 1,533,894	$ 1,533,894	100.00	-	-
Alaska	111,485	111,485	100.00	-	-
American Samoa (USAF)	21,630	21,630	100.00	-	-
Arizona (USAF)	12,106,017	12,106,017	100.00	-	-
Arkansas	797,909	797,909	100.00	-	-
California	66,463,795	62,427,933	93.93	April	August
Colorado	4,986,652	4,986,652	100.00	-	-
Connecticut	19,408,351	19,408,351	100.00	-	-
Delaware	525,450	525,450	100.00	-	-
District of Columbia (HEAF)	11,580,732	11,580,732	100.00	-	-
District of Columbia (Inactive)[a]	155,875	124,700	80.00	a	a
Florida	16,512,955	15,773,307	95.52	June	-
Georgia	4,592,805	4,592,805	100.00	-	-
Guam (USAF)	10,548	10,548	100.00	-	-
Hawaii (USAF)	1,664,184	1,664,184	100.00	-	-
Idaho	1,243,847	1,243,847	100.00	-	-
Illinois	27,319,124	27,319,124	100.00	-	-
Indiana	4,043,933	4,043,933	100.00	-	-
Iowa	6,231,122	6,050,219	97.10	July	-
Kansas (HEAF)	14,092,761	13,485,603	95.69	June	-
Kentucky	3,483,399	3,483,399	100.00	-	-
Louisiana	3,398,609	3,398,609	100.00	-	-
Maine	4,072,291	4,012,882	98.54	September	-
Maryland	12,600,364	12,028,733	95.46	May	-
Massachusetts	29,612,925	29,612,925	100.00	-	-
Michigan	25,182,106	24,780,659	98.41	August	-
Minnesota (HEAF)	27,765,973	26,957,815	97.09	July	-
Mississippi	835,471	835,471	100.00	-	-
Missouri	9,536,573	9,536,573	100.00	-	-
Montana	945,758	945,758	100.00	-	-
Nebraska (HEAF)	9,360,316	9,360,316	100.00	-	-
Nevada	1,125,905	1,081,895	96.09	July	-
New Hampshire	1,944,658	1,944,658	100.00	-	-
New Jersey	39,678,372	39,678,372	100.00	-	-
New Mexico	950,267	950,267	100.00	-	-
New York	133,611,865	133,466,796	99.89	September	-
North Carolina	2,611,892	2,611,892	100.00	-	-
North Dakota	396,280	396,280	100.00	-	-
Northern Marianas (USAF)	1,047	1,047	100.00	-	-
Ohio	7,548,622	7,548,622	100.00	-	-
Oklahoma	4,900,243	4,900,243	100.00	-	-
Oregon	3,672,267	3,672,267	100.00	-	-
Pennsylvania	64,798,234	64,733,607	99.90	September	-
Puerto Rico	85,854	85,854	100.00	-	-
Rhode Island	4,038,929	4,038,395	99.99	September	-
South Carolina	222,121	222,121	100.00	-	-
South Dakota	2,493,848	2,493,848	100.00	-	-
Tennessee	2,792,370	2,792,370	100.00	-	-
Texas	6,541,885	6,541,885	100.00	-	-

Agency	Claims paid	Reinsurance	Percent	Month in which reinsurance reduced 90 percent	 80 percent
Trust Territories (USAF)	178,402	178,402	100.00	-	-
USAF (National)	11,827,681	11,488,066	97.13	July	-
Utah	3,108,759	3,108,759	100.00	-	-
Vermont	852,808	852,808	100.00	-	-
Virgin Islands	159,759	146,116	91.46	May	August
Virginia	9,318,212	9,318,212	100.00	-	-
Washington	3,480,692	3,480,692	100.00	-	-
West Virginia (HEAF)	4,814,906	4,814,906	100.00	-	-
Wisconsin	20,716,767	20,708,983	99.96	September	-
Wyoming (HEAF)	984,833	984,833	100.00	-	-
	$652,634,332	$644,583,659	98.77		

[a] The District of Columbia previously had its own guarantee agency. This agency no longer guarantees new loans and is considered inactive by the Department of Education; however, the agency still has loans outstanding and must pay claims. The agency did not qualify for supplemental reinsurance; thus, all claims are reinsured at 80 percent.

Source: GAO computations based on statistics provided by the Department of Education.

GUARANTEE AGENCY SOURCES and USES of FUNDS
Cumulative as of 9/30/84



Note : Categories are further explained in
legend beneath data on next page.

GUARANTEE AGENCY SOURCES AND USES OF FUNDS --- SUMMARY*

($ IN 000 S)

SOURCES:	ST APPR	IN PREM	ADVANCE	REINSUR	ACA	COLL	INVEST	TOTAL SOURCES
FY82	9,908	104,343	4,106	220,970	54,089	49,626	49,434	502,976
FY83	9,477	110,289	16,428	409,372	53,087	78,875	48,600	725,498
FY84	16,412	123,490	29,257	650,960	61,898	122,336	59,442	1,062,895
CUM	151,042	628,069	129,704	2,072,156	351,881	485,442	252,834	3,891,978

USES:	CLAIMS	OP EXP	$ TO ED	OTHER	TOTAL USES	SUR/DEF	CUM $ AVAIL
FY82	240,647	95,077	35,169	10,812	381,705	121,271	542,115
FY83	471,715	115,084	54,225	24,264	665,290	60,118	643,859
FY84	663,501	132,236	80,541	19,282	896,560	166,335	841,509
CUM	2,279,437	564,662	250,299	109,571	3,203,969	688,009	

LEGEND

ST APPR = STATE APPROPRIATIONS AND OTHER NON-FEDERAL SOURCES
IN PREM = INSURANCE PREMIUMS
ADVANCE = FEDERAL RESERVE ADVANCES
REINSUR = REINSURANCE CLAIMS (DEFAULT, DEATH & DISABILITY, OR BANKRUPTCY)
ACA = ADMINISTRATIVE COST ALLOWANCES
COLL = COLLECTIONS ON DEFAULT CLAIMS PAID
INVEST = INVESTMENT EARNINGS
CLAIMS = CLAIMS PAID TO LENDERS (DEFAULT, DEATH & DISABILITY, OR BANKRUPTCY)
OP EXP = OPERATING EXPENSES
$ TO ED = PORTION OF COLLECTIONS REMITTED TO DEPT OF ED.
OTHER = ALL OTHER USES (LENDER FEES, REPAYMENT OF LOAN ADVANCES, REPAYMENT OF STATE LOANS, ETC.)
SUR/DEF = SURPLUS OR DEFICIT
CUM $ AVAIL = CUMULATIVE $ AVAILABLE AT END OF FY

NOTE: ALL DATA EXCEPT THE "CUMULATIVE $ AVAILABLE" AMOUNTS REFLECT ACTUAL CASH RECEIPTS OR DISBURSEMENTS. CUMULATIVE $ AVAILABLE REFLECTS ADDITIONAL INCOME OWED, BUT NOT YET PAID, TO THE GUARANTEE AGENCIES, INCLUDING, FOR EXAMPLE, REINSURANCE CLAIMS AND ADMINISTRATIVE COST ALLOWANCES APPROVED BUT NOT YET PAID BY THE DEPT. OF EDUCATION.

* INCLUDES PLUS

NOTE: PRELIMINARY TABLES; SOURCE, MARK WOLFE, THE COLLEGE BOARD

Table 1: Federal Reinsurance of Guarantee Agency Loan Defaults
(FY 1984)
(Dollars in Millions)

Agency	Total Loans in Default	Total Federal Reinsurance	Average Percentage Reinsured	Amount of Defaults Qualified For: 100% Reinsurance	90% Reinsurance	80% Reinsuranc
Alabama[1]	$ 1.5	$ 1.5	100.0	$ 1.5	$ -	$ -
Alaska	0.1	0.1	100.0	0.1	-	-
Arkansas	0.8	0.8	100.0	0.8	-	-
California	66.8	62.4	93.4	32.1	25.7	9.0
Colorado[1]	5.0	5.0	100.0	5.0	-	-
Connecticut	19.4	19.4	100.0	9.4	-	-
Delaware	0.5	0.5	100.0	0.5	-	-
Florida	16.6	15.8	95.1	9.1	7.5	-
Georgia	4.6	4.6	100.0	4.6	-	-
Idaho	1.2	1.2	100.0	1.2	-	-
Illinois	27.3	27.3	100.0	27.3	-	-
Indiana	4.0	4.0	100.0	4.0	-	-
Iowa	6.3	6.1	96.8	4.4	1.9	-
Kentucky	3.5	3.5	100.0	3.5	-	-
Louisiana[1]	3.4	3.4	100.0	3.4	-	-
Maine	4.1	4.0	97.6	3.5	0.6	-
Maryland	12.6	12.0	95.2	6.9	5.7	-
Massachusetts	29.6	29.6	100.0	29.6	-	-
Michigan	25.2	24.8	98.4	21.2	4.0	-
Mississippi	0.8	0.8	100.0	0.8	-	-
Missouri[1]	9.5	9.5	100.0	9.5	-	-
Montana[1]	1.0	1.0	100.0	1.0	-	-
Nevada	1.1	1.1	96.0	0.7	0.4	-
New Hampshire	2.0	2.0	100.0	2.0	-	-
New Jersey	39.7	39.7	100.0	39.7	-	-
New York	133.7	132.2	98.9	132.2	1.5	-
North Carolina	2.6	2.6	100.0	2.6	-	-
North Dakota[1]	0.4	0.4	100.0	0.4	-	-
Ohio	7.6	7.6	100.0	7.6	-	-
Oklahoma[1]	4.9	4.9	100.0	4.9	-	-
Pennsylvania	64.8	64.7	99.8	64.2	0.6	-
Rhode Island	4.0	4.0	99.9	4.0	[3]	-
South Carolina	0.2	0.2	100.0	0.2	-	-
Oregon	3.8	3.8	100.0	3.8	-	-
South Dakota	2.5	2.5	100.0	2.5	-	-
Tennessee	2.8	2.8	100.0	2.8	-	-
Texas[1]	6.5	6.5	100.0	6.5	-	-
Utah	3.1	3.1	100.0	3.1	-	-
Vermont	0.9	0.9	100.0	0.9	-	-
Virginia	9.3	9.3	100.0	9.3	-	-
Washington	3.5	3.5	100.0	3.5	-	-
Wisconsin	20.7	20.7	99.9	20.6	0.1	-

(continued)

Table 1: Federal Reinsurance of Loan Defaults
(FY 1984)
(Dollars in Millions)

Agency	Loans in Default	Total Federal Reinsurance	Average Percentage Reinsured	Dollar amount in default qualified for: 100% Reinsurance	90% Reinsurance	80% Reinsurance
HEAF Agencies:[4]						
Washington, DC[1]	11.6	11.6	100.0	11.6	-	-
Kansas	14.1	13.5	95.7	8.0	6.1	-
Minnesota	27.8	27.0	97.1	19.7	8.1	-
Nebraska[1]	9.4	9.4	100.0	9.4	-	-
West Virginia[1]	4.8	4.8	100.0	4.8	-	-
Wyoming[1]	0.6	.6	100.0	0.6		
USAF Agencies:[5]						
USAF	11.9	11.5	96.7	8.4	3.5	-
Arizona[1]	12.1	12.1	100.0	12.1	-	-
Hawaii[1]	1.7	1.7	100.0	1.7	-	-
Total[2]	$651.9	$642.0	98.5%	$577.2	$65.7	$9.0

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[1] These agencies automatically qualify for 100 percent reinsurance of loan defaults under the 1976 provisions of the Higher Education Act. The 1976 provision provide that agencies that meet the requirements for supplemental loan reinsurance, receive 100 percent reinsurance of all loan defaults for five fiscal years regardless of their actual default rate.

[2] Excludes loan defaults reported by Puerto Rico, Guam, American Samoa, Virgin Islands, and Trust Territories. Total defaults reported by these program in FY 1984 totaled less than $500,000 of which about 98 percent were reinsured.

[3] Less than .5.

[4] The Higher Education Assistance Foundation (HEAF) is multi-state guarantor that acts as the guarantor in 5 states and provides certain other targeted loan insurance program.

[5] The United Student Aid Funds (USAF) is multi-state guarantor that act as a guaranter in two states and provides certain other targeted loan insurance programs.

Table 2--Cumulative Dollars Available as a Percent of Loans Outstanding
(FY 1984)

Agency	Cumulative Dollars Available (in millions)	Loans Outstanding (in millions)	Cumulative Dollars Available as a Percent of Loans Outstanding	Year Agency Established
Alabama	$2.3	$152.4	1.5%	1981
Alaska	.2	18.2	1.1	1972
Arkansas	6.2	131.9	4.7	1967
California	57.7	2,436.5	2.4	1967
Colorado	13.5	375.1	3.6	1980
Connecticut	12.0	1,182.9	1.0	1966
Delaware	4.3	103.7	4.1	1966
Florida	12.3	720.6	1.7	1979
Georgia	13.5	329.5	4.1	1965
Idaho	1.5	77.2	1.9	1979
Illinois	26.4	2,064.1	1.3	1965
Indiana	12.8	592.9	2.2	1978
Iowa	19.2	492.9	3.9	1979
Kentucky	7.8	305.4	2.6	1978
Louisiana	4.0	286.0	1.4	1964
Maine	8.5	221.0	3.9	1968
Maryland	29.2	531.2	5.5	1965
Massachusetts	43.6	1,772.4	2.5	1966
Michigan	38.5	1,178.0	3.3	1962
Mississippi	2.0	87.1	2.3	1982
Missouri	16.5	458.9	3.6	1968
Montana	2.4	78.4	3.1	1980
Nevada	1.9	56.9	3.3	1970
New Hampshire	4.4	185.4	2.4	1965
New Jersey	34.9	1,824.0	1.9	1960
New Mexico	2.3	92.0	2.5	1981
New York	100.1	5,485.6	1.8	1958
North Carolina	13.4	233.2	5.8	1966
North Dakota	4.9	79.8	6.1	1982
Ohio	46.5	1,426.1	3.3	1962
Oklahoma	5.6	171.0	3.3	1966
Oregon	8.0	304.7	2.6	1967
Pennsylvania	77.9	3,154.4	2.5	1967
Rhode Island	9.0	236.2	3.8	1959
South Carolina	2.5	60.0	1.7	1978
South Dakota	8.5	227.8	3.7	1979
Tennessee	9.1	372.4	2.5	1963
Texas	13.1	580.6	2.3	1981
Utah	8.8	198.1	4.5	1978
Vermont	2.0	124.5	1.6	1965
Virginia	29.2	589.1	5.0	1961
Washington	6.4	340.4	1.9	1979
Wisconsin	28.0	1,060.8	2.7	1967

Table 2--Cumulative Dollars Available as a Percent of Loans Outstanding (FY 1984)

Agency	Cumulative Dollars Available (in millions)	Loans Outstanding (in millions)	Cumulative Dollars Available as a Percent of Loans Outstanding	Year Agency Established
HEAF Agencies:[1]				
DC	8.7	193.8	4.5	1981
Kansas	13.4	459.1	2.9	1970
Minnesota	37.8	1,316.9	2.9	1977
Nebraska	10.0	316.4	3.2	1981
West Virginia	4.8	185.2	2.6	1981
Wyoming	1.0	39.7	2.5	1981
USAF Agencies:[2]				
USAF	5.2	653.5	.8	1960
Arizona	4.4	255.8	1.7	1981
Hawaii	2.2	74.3	3.0	1980
Territories				
American Samoa	.1	n/a[3]	n/a	1982
Guam	n/a	1.2	n/a	1982
Puerto Rico	3.3	103.6	3.2	1981
Trust Territories	.2	4.3	4.7	1982
Virgin Islands	.4	n/a	n/a	1978
Total	$841.5	$33,992.0	2.4%	

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[1] The Higher Education Assistance Foundation (HEAF) is a multi-state guarantor that acts as the guarantor in 5 states and provides certain other targeted loan insurance program.

[2] The United Student Aid Funds (USAF) is a multi-state guarantor that act as a guarantor in two states and provides certain other targeted loan insurance programs.

[3] n/a = not available.

Table 3--Advances as Percent of Cumulative Dollars Available (FY 1984)

Agency	Advances Outstanding (in millions)	Cumulative Dollars Available (in millions)	Advances as a Percent of Cumulative Dollars Available
Alabama	$1.2	$2.3	52.2%
Alaska	-	.2	-
Arkansas	.5	6.2	8.1
California	14.3	57.7	24.8
Colorado	5.8	13.5	43.0
Connecticut	3.9	12.0	32.5
Delaware	.3	4.3	7.0
Florida	1.0	12.3	8.1
Georgia	2.2	13.5	16.3
Idaho	.3	1.5	20.0
Illinois	4.1	26.4	15.5
Indiana	2.1	12.8	16.4
Iowa	1.3	19.2	6.8
Kentucky	.5	7.8	6.4
Louisiana	1.0	4.0	25.0
Maine	.6	8.5	7.1
Maryland	1.0	29.2	3.4
Massachusetts	-	43.6	-
Michigan	4.1	38.5	10.7
Mississippi	.3	2.0	15.0
Missouri	6.0	16.5	36.4
Montana	.7	2.4	29.2
Nevada	.2	1.9	10.5
New Hampshire	.5	4.4	11.4
New Jersey	6.7	34.9	19.2
New Mexico	.3	2.3	13.0
New York	10.3	100.1	10.3
North Carolina	1.0	13.4	7.5
North Dakota	.2	4.9	4.1
Ohio	3.0	46.5	6.5
Oklahoma	.7	5.6	12.5
Oregon	-	8.0	-
Pennsylvania	13.9	77.9	17.8
Rhode Island	.1	9.0	1.1
South Carolina	.5	2.5	20.0
South Dakota	2.4	8.5	28.2
Tennessee	1.4	9.1	15.4
Texas	6.5	13.1	49.6
Utah	1.4	8.8	15.9
Vermont	.6	2.0	30.0
Virginia	-	29.2	-
Washington	5.8	6.4	90.6
Wisconsin	5.3	28.0	18.9

(continued)

Table 3--Advances as Percent of Cumulative Dollars Available
(FY 1984)

Agency	Advances Outstanding (in millions)	Cumulative Dollars Available (in millions)	Advances as a Percent of Cumulative Dollars Available
HEAF Agencies:[1]			
DC	-	$ 8.7	-
Kansas	-	13.4	-
Minnesota	-	37.8	-
Nebraska	-	10.0	-
West Virginia	-	4.8	-
Wyoming	-	1.0	-
USAF Agencies:[2]			
USAF	5.1	5.2	98.1
Arizona	3.1	4.4	70.4
Hawaii	1.0	2.2	45.4
Territories			
American Samoa	.2	n/a[3]	n/a
Guam	.2	n/a	n/a
Puerto Rico	.5	3.3	15.2
Trust Territories	.2	.2	100.0
Virgin Islands	.3	.4	75.0
Total	$120.7	$841.5	14.3%

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[1] The Higher Education Assistance Foundation (HEAF) is a multi-state guarantor that acts as the guarantor in 5 states and provides certain other targeted loan insurance program.

[2] The United Student Aid Funds (USAF) is a multi-state guarantor that act as a guarantor in two states and provides certain other targeted loan insurance programs.

[3] n/a = not available.

REINSURANCE FOR CLAIMS PAID BY GUARANTEE AGENCIES DURING FEDERAL FISCAL YEAR 1984

Agency	Claims paid	Reinsurance	Percent	Month in which reinsurance reduced 90 percent	80 percent
Alabama	$ 1,533,894	$ 1,533,894	100.00	-	-
Alaska	111,485	111,485	100.00	-	-
American Samoa (USAF)	21,630	21,630	100.00	-	-
Arizona (USAF)	12,106,017	12,106,017	100.00	-	-
Arkansas	797,909	797,909	100.00	-	-
California	66,463,795	62,427,933	93.93	April	August
Colorado	4,986,652	4,986,652	100.00	-	-
Connecticut	19,408,351	19,408,351	100.00	-	-
Delaware	525,490	525,490	100.00	-	-
District of Columbia (HEAF)	11,980,732	11,980,732	100.00	-	-
District of Columbia (inactive)*	155,875	124,700	80.00	*	*
Florida	16,512,959	15,773,307	95.52	June	-
Georgia	4,992,805	4,992,805	100.00	-	-
Guam (USAF)	10,548	10,548	100.00	-	-
Hawaii (USAF)	1,664,184	1,664,184	100.00	-	-
Idaho	1,243,847	1,243,847	100.00	-	-
Illinois	27,319,124	27,319,124	100.00	-	-
Indiana	4,043,933	4,043,933	100.00	-	-
Iowa	6,231,122	6,050,219	97.10	July	-
Kansas (HEAF)	14,092,781	13,485,003	95.69	June	-
Kentucky	3,483,399	3,483,399	100.00	-	-
Louisiana	3,398,609	3,398,609	100.00	-	-
Maine	4,072,291	4,012,882	98.54	September	-
Maryland	12,600,364	12,028,733	95.46	May	-
Massachusetts	29,612,925	29,612,925	100.00	-	-
Michigan	25,182,106	24,780,059	98.41	August	-
Minnesota (HEAF)	27,765,973	26,957,015	97.09	July	-
Mississippi	835,471	835,471	100.00	-	-
Missouri	9,536,973	9,536,973	100.00	-	-
Montana	945,758	945,758	100.00	-	-
Nebraska (HEAF)	9,380,316	9,380,316	100.00	-	-
Nevada	1,125,905	1,081,895	96.09	July	-
New Hampshire	1,944,658	1,944,658	100.00	-	-
New Jersey	39,678,372	39,678,372	100.00	-	-
New Mexico	950,267	950,267	100.00	-	-
New York	133,611,865	133,466,796	99.89	September	-
North Carolina	2,611,892	2,611,892	100.00	-	-
North Dakota	396,280	396,280	100.00	-	-
Northern Marianas (USAF)	1,047	1,047	100.00	-	-
Ohio	7,548,622	7,548,622	100.00	-	-
Oklahoma	4,900,243	4,900,243	100.00	-	-
Oregon	3,672,267	3,672,267	100.00	-	-
Pennsylvania	64,798,234	64,733,607	99.90	September	-
Puerto Rico	85,854	85,854	100.00	-	-
Rhode Island	4,038,929	4,038,395	99.99	September	-
South Carolina	222,121	222,121	100.00	-	-
South Dakota	2,495,848	2,495,848	100.00	-	-
Tennessee	2,792,370	2,792,370	100.00	-	-
Texas	6,541,885	6,541,885	100.00	-	-

Agency	Claims paid	Reinsurance	Percent	Month in which reinsurance reduced 90 percent	 80 percent
Trust Territories (USAF)	178,402	178,402	100.00	-	-
USAF (National)	11,827,681	11,488,066	97.13	July	-
Utah	3,108,759	3,108,759	100.00	-	-
Vermont	852,808	852,808	100.00	-	-
Virgin Islands	159,759	146,116	91.46	May	August
Virginia	9,318,212	9,318,212	100.00	-	-
Washington	3,460,692	3,460,692	100.00	-	-
West Virginia (HEAF)	4,814,906	4,814,906	100.00	-	-
Wisconsin	20,716,767	20,708,983	99.96	September	-
Wyoming (HEAF)	584,833	584,833	100.00	-	-
	$652,634,332	$644,583,659	98.77		

[a] The District of Columbia previously had its own guarantee agency. This agency no longer guarantees new loans and is considered inactive by the Department of Education; however, the agency still has loans outstanding and must pay claims. The agency did not qualify for supplemental reinsurance; thus, all claims are reinsured at 80 percent.

Source: GAO computations based on statistics provided by the Department of Education.

Mr. FORD. The next panel is Mr. Richard Hawk, chairman of the board, Higher Education Assistance Foundation; the Honorable Joe McCormick, executive director of the Texas Guaranteed Student Loan Program; Mr. James Flippin, director of the Mississippi Guarantee Student Loan Agency.

Your statements will be included in the record in full.

Do you want to start first, Mr. Hawk?

STATEMENT OF RICHARD C. HAWK, CHAIRMAN OF THE BOARD, HIGHER EDUCATION ASSISTANCE FOUNDATION; JOE McCORMICK, EXECUTIVE DIRECTOR, TEXAS GUARANTEED STUDENT LOAN PROGRAM; JAMES FLIPPIN, DIRECTOR, MISSISSIPPI GUARANTEE STUDENT LOAN AGENCY, A PANEL

Mr. HAWK. Thank you.

Mr. Chairman and members of the subcommittee, the HEMAR Group, which I represent, consists of seven nonprofit organizations which perform complementary functions in broad effort to assure financial access to postsecondary education through student loans. The oldest of these organizations is the Higher Education Assistance Foundation that serves as the designated guarantee agency in Kansas, Minnesota, Nebraska, Washington, DC, West Virginia, and Wyoming. It also guarantees loans for lenders in other States, particularly institutions which lend to students on a multi-State basis, and it participates in assured access programs for targeted populations such as students attending institutions of the United Negro College Fund and the population served by the League of United Latin American Citizens.

Last fiscal year the foundation guaranteed $817 million in student loans for more than 2,000 lenders while maintaining an average turnaround time of 1.8 days. It has twice lowered its guarantee fee since 1977 and have voluntarily returned $10.8 million in Federal advances.

The second organization in the HEMAR Group, the Higher Education Loan Program of Kansas, assures loan access by supplementing commercial lending and by providing liquidity for lenders. Similar programs are in West Virginia, Washington, DC, and Tennessee. All of them have replaced tax-exempt revenue bonds with taxable financing.

A sixth organization, HEMAR Service Corp., services loan portfolios for lenders in 19 States. The Higher Education Management and Resources Foundation assists these six organizations with management and financial resources. For example, HEMAR Foundation obtained a $1 billion taxable line of credit from the Student Loan Marketing Association and allocates that resource to the individual HELP programs.

By operating on a multi-State basis, the HEMAR group symbolizes the dramatic change occurring in the financial services industry. Many lending institutions no longer view their mission as serving only customers in a single State. Moreover, holding companies with institutions in more than one State are seeking to improve effectiveness and efficiency by consolidating student loan operations. Neither a lending institution operating on a multi-State basis nor a regional group of institutions with a consolidated student loan program can maximize effectiveness utilizing the guarantees of multiple agencies, so some lenders turn to an organization like the Higher Education Assistance Foundation which guarantees loans on a multi-State basis.

Other lending institutions seek the coordinated services provided by the HEMAR Group. With a single contact a lender can arrange to have loans guaranteed by the Higher Education Assistance Foundation, serviced by HEMAR Service Corp., and purchased by one of the HELP programs. Assistance in originating and multiply disbursing loans also is available.

Opportunity to lend on a multi-State basis with a single guarantee and to improve profitability through enhanced deficiency is advantageous to many lenders. Paradoxically, what is advantageous to these lenders may not be for single-State guarantee agencies. Lender use of a multi-State guarantor can curtail the growth of single-State guarantee agencies and diminish their power, causing uneasiness among those officers who perceive their role to be controlling student loans in a State.

Multi-State guarantors also put pressure on single-State guarantors to enhance service. If a multi-State guarantor processes applications more rapidly or charges a lower guarantee fee, the single-State agency feels pressure to meet the competition. The improved service is beneficial to both lenders and students but it may strain some guarantors.

In any event, the Guaranteed Student Loan Program cannot achieve its potential without multi-State guarantors. Financial services, including student loans, are already being provided across State lines. Unless the program is structured consistently with the way in which financial services will be provided in the future, student loans will not command adequate participation from the financial industry.

Does this mean that single-State guarantee agencies have no future? I think not. Single-State agencies will continue to guarantee most loans. On the other hand, just as we no longer expect all citizens to obtain financial services only from a bank which serves a limited geographical area, we no longer can expect all students to obtain a loan guaranteed by an agency which serves only in a single State or all financial institutions to have student loans guaranteed by a single State agency.

Some problems are erroneously blamed on multi-State guarantors. For example——

Mr. FORD. May I interrupt you?

Mr. HAWK. Yes, sir.

Mr. FORD. I would just like people to notice, with all the publicity that has been given to shifts in parties recently, we have just seen somebody choose to leave that side and come to this side.

Mr. HENRY. The chairman will note, if you will pardon me, the Republicans are really very diligent in their attendance and faithful work on this subcommittee.

Mr. FORD. Well, the Democrats trust me; the Republicans come here to watch me. [Laughter.]

Mr. HAWK. Thank you, Mr. Chairman.

Just as we no longer expect all citizens to obtain financial services only from a bank which serves a limited geographical area, we can no longer expect all students to obtain a loan guaranteed by an agency which serves only in a single State or all financial institutions to have loans guaranteed by a single-State agency.

Some problems are erroneously blamed on multi-State guarantors. For example, we hear complaints that by receiving loans guaranteed by a multi-State guarantor borrowers may attend an institution which a single-State guarantor believes to be deficient. The fact is that without multi-State guarantors students would still be able to attend an institution which is not in favor with the guarantor in the State in which the institution is located.

It makes no difference whether a student attending an institution in the State of Kentucky, for example, has a loan from an Ohio bank guaranteed by the Ohio agency or guaranteed by a multi-State guarantor. Unless the student is precluded from borrowing from a lender in any State other than the lender in which the educational institution is located, the guarantee agency in the State cannot prevent loans to students at that institution.

A guarantee agency probably should not have power to preclude loans to students at an institution. It should have authority to withhold its own guarantee and to report problems to the Department of Education. The key is placing responsibility on guarantors to report problem institutions and on the Department for determining whether or not the eligibility of an institution should be revoked.

The need for a multi-State guarantee capacity is increasing. Meeting that need does not require a change in legislation. It simply requires awareness by the Congress of the importance of multi-State loan guarantors in a changing financial services environment.

In testimony over the past several years I have suggested that guarantee agencies need not be subsidized as heavily as they are. We put our money where our mouth is, so to speak, with the return of $10.8 million in reserve advances which had been granted to the Higher Education Assistance Foundation.

For us, the administrative cost allowance is not essential. It permits us to incur some expenditures which we might otherwise curtail. It eases our budgeting problem. But it is not critical. Moreover, having the Department of Education collect the origination fee and pay the administrative cost allowance is a cumbersome procedure for increasing guarantee agency revenues. Greater efficiency would be achieved by reducing the origination fee and permitting agencies to increase the guarantee fee by an amount sufficient to cover whatever portion of the administrative cost allowance is needed. The cost to the borrower would be the same or less because some agencies would increase the guarantee fee by less than the amount of the administrative cost allowance.

I also have testified that guarantee agencies could assume a larger share of default cost. One modification to the current reinsurance formula under which the Federal Government bears 100 percent of most defaults would be to require that the guarantee agency bear some of the cost, perhaps 80 or 90 percent, of all defaults.

An alternative is for the Federal Government to bear an increasing percentage of the cost as default rates rise on the theory that the role of the Federal Government should be to protect the guarantee agency from financial disaster. A plan for this alternative was presented to this committee previously, and I will be happy to submit that plan again if you wish.

If we were only concerned with the Higher Education Assistance Foundation as a guarantor, I could recommend elimination of reserve advances, elimination of the administrative cost allowance, and modification of the reinsurance formula to place a larger share of default costs on guarantee agencies. However, most guarantee agencies would find such a comprehensive reduction in Federal subsidies to be disastrous.

Accordingly, subsidies for guarantee agencies should not be reduced without attention to the impact on all of the agencies. Even so, efforts to cut costs should include consideration of reducing guarantee agency subsidies in preference to modifications which would curtail eligibility for student loans or which would diminish availability of loan capital.

Some increase in the cost to the borrower may be feasible, particularly the amount of interest paid in the latter years of loan repayment. An increase in interest after the first few years of repayment has potential for double savings. Lower special allowance during those years in which the borrower pays higher interest and elimination of special allowance payments when loans are repaid more rapidly as interest rates no longer make early repayment disadvantageous.

An alternative for curtailing costs is to reduce the yield to lenders. The Congress should be cautious about reducing lender yield. As compared with a few years ago, several conditions have made student loans currently attractive to lenders. As conditions change, however, we could find ourselves in difficulty again if an appropriate yield to the lender is not preserved.

Reduction in yield to the lender also could negatively affect shifting from tax-exempt to taxable financing. Although we have found taxable financing to be feasible, the margins are thin and a reduction in yield to the lender could sabotage the viability of taxable financing for statewide lending and secondary market programs.

Mr. Chairman and members of the committee, the Guaranteed Student Loan Program serves this Nation remarkably well. It gives students opportunity to become more productive citizens through education, and it gives them the capacity to assume responsibility for paying their own educational expenses from future earnings. For such a massive program, the Guaranteed Student Loan Program functions quite smoothly and the Congress has achieved an exemplary partnership with the private sector providing private capital to meet the public purposes of education.

Guarantee agencies are important program partners along with lenders. This effective partnership need not be disrupted by the changing structure for delivering financial services in this Nation. Some strains will occur. Some guarantee agencies will believe that they should have a larger share of the market; so will some lenders. Some problems will arise. But these strains and problems are minor when viewed in the context of total program effectiveness.

The Guaranteed Student Loan Program is simply too important not to be reauthorized. The basic structure is too sound not to be continued. The HEMAR Group is privileged to be part of such a successful program. We have dedicated ourselves to providing a substantial multi-State capacity to serve students, educational institutions and lenders. We appreciate your thoughtful approach to reauthorization, and we are available to provide any assistance which you may need. Thank you.

Mr. FORD. Thank you.

[The statement of Mr. Hawk follows:]

PREPARED STATEMENT OF RICHARD C. HAWK, CHAIRMAN OF THE BOARD, THE HEMAR GROUP

Mr. Chairman and Members of the Subcommittee:

First, let me thank you for the invitation to present testimony as part of your reauthorization process.

Second, I wish to commend the members of this committee and the Chairman (1) for your constructive and deliberative approach to reauthorization, (2) for your responsible actions facilitating the development of the Guaranteed Student Loan Program over the past several years, and (3) for your leadership in stimulating the Congress to recognize the need for, and to act responsibly with respect to, guaranteed student loans. Although the Budget Committee had the primary responsibility for the budget resolution adopted by the House of Representatives this year, I am certain that this Subcommittee was instrumental in influencing the Budget Committee and the House not to cripple the Guaranteed Student Loan Program by unwarranted budgetary restrictions on the Program. Although their gratification may not be communicated directly, students and their families, educational institutions, lenders and others involved with student loans are grateful for the positive influence of this Subcommittee in the whole budget reconciliation process.

Structure and Role of the HEMAR Group

The organizations which I represent comprise the HEMAR group. That group consists of seven non-profit organizations which perform complementary and mutually supportive functions as part of a broad effort to assure financial access to postsecondary education through guaranteed student loans.

In facilitating financial access to postsecondary education, the HEMAR group is concerned with the future --- the future of those individuals who, through student loans, gain the opportunity to prepare for more productive contributions as citizens of this great nation and for richer, more meaningful lives as a result of the postsecondary education experience --- and the future of this nation, the continuing economic development and social advancement of which clearly is dependent on a well-educated citizenry and on adequate development of our most valuable resources: the nation's human resources.

In pursuing our mission of "guaranteeing the future", we recognize that we cannot guarantee the success of individual loan recipients. With your support, we can guarantee opportunity --- opportunity which is of critical importance to the future of both the individual loan recipient and to the nation.

The oldest HEMAR organization is the Higher Education Assistance Foundation. That organization serves as the "designated" guarantee agency in Kansas, Minnesota, Nebraska, Washington, D.C., West Virginia and Wyoming. It also guarantees loans for lenders in other states, particularly lending institutions and groups of institutions which lend to students on a multi-state basis. In addition, the Foundation with the cooperation of other major participants in student loans, such as Citibank and the Student Loan Marketing Association, has developed assured access programs for targetted populations.

One such targetted program serves students attending institutions affiliated with the United Negro College Fund, and the traditional black public colleges and universities which are not members of the Fund. Another example is the LULAC assured access program, which provides a resource for the League of United Latin American Citizens to assist that organization in its effort to facilitate and stimulate the education and advancement of the population which it serves. Arrangements similar to those with UNCF and LULAC have been developed with the Association of Independent Colleges and Schools and the Law School Admissions Council to assure a dependable and responsive loan program for students attending institutions affiliated with those groups.

In guaranteeing loans for more than 2,000 lenders, the Foundation has sought to exert leadership for the student loan industry by demonstrating how all segments of the population can be served effectively and also how the Program can be made to function efficiently at the lowest feasible cost. One example of that efficiency is the procedures which have been developed for rapid processing of loan applications so that funds are available to students when needed, rather than at some later date. Last fiscal year the Foundation guaranteed $817 million in student loans while maintaining an average processing time for guaranteeing applications of only 1.8 days. On the cost side, the Foundation has twice lowered the guarantee fee which is charged to students since it began guaranteeing loans in the Fall of 1977.

In 1983 the Foundation voluntarily returned $10.8 million which represented all federal reserve advances received and has accepted no reserve advances since that time.

The second organization in the HEMAR group --- Higher Education Loan Program of Kansas --- was established when funds for student loans provided by Kansas commercial lending institutions were not sufficient to meet the total need. The purpose of HELP of Kansas is to serve as a second resort lender meeting the needs of students who have difficulty obtaining a loan from a commercial lender, to fill the gap between the volume of loans made by commercial lenders and the total need, and to purchase loans from commercial lenders as desirable in order to permit those lenders to reuse their funds invested in student loans to help larger numbers of students. Similar HELP programs in the HEMAR group now also exist in West Virginia, Washington, D.C. and Tennessee.

Like the Higher Education Assistance Foundation, the HELP programs are committed to quality performance without unnecessary cost to the taxpayer. In response to national efforts to diminish the cost to the federal government by reliance on tax exempt revenue bonds, these HELP organizations have replaced tax exempt revenue bonds with taxable financing as the source of loan capital.

HEAF and the four HELP programs provide functions critical to the success of the Guaranteed Student Loan Program. An additional function which could not appropriately be provided by any of these organizations, loan servicing, is equally important. The need for the HEMAR group to have a servicing arm became apparent when First Bank Minneapolis elected to discontinue operating its Student Loan Servicing Center, which was the largest servicer of loans guaranteed by the Higher Education Assistance Foundation. Recognizing that availability of quality loan servicing was essential, we established HEMAR Service Corporation, which assumed responsibility for operation of the Student Loan Servicing Center. Since assumption of that responsibility, HEMAR Service Corporation has demonstrably improved the quality of loan servicing while at the same time reducing servicing charges.

Each of these -- the Higher Education Assistance Foundation, the four HELP programs, and HEMAR Service Corporation -- is a separate non-profit corporation, although HEMAR Service Corporation pays taxes just as if it were a for-profit organization.

Each of these organizations plays a vital role in the comprehensive effort of the HEMAR group to guarantee the future of both individuals and the nation by providing access to postsecondary education through a truly effective Guaranteed Student Loan Program, as authorized by the Congress.

In order to facilitate effectiveness of these six organizations and to coordinate their respective roles, there was established another non-profit (but tax-paying) organization, the Higher Education Management and Resources Foundation. The other six corporate entities in the group are related to that Foundation to assure that their separate functions are orchestrated and complementary. HEMAR Foundation also seeks to assure that each of the other organizations has both the management resources and controls and the financial resources to perform its role effectively. One example of the way in which HEMAR Foundation serves to assure adequate resources for the other organizations is the transition from tax exempt to taxable financing. It was HEMAR Foundation which obtained a $1 billion taxable line of credit from the Student Loan Marketing Association. In accordance with the Master Financing Agreement between HEMAR Foundation and SLMA, HEMAR Foundation allocates and reallocates portions of the $1 billion commitment to the individual HELP programs as needed.

Hopefully this description of the HEMAR group and the organizations in the group (1) will reassure the members of this Committee that we are committed to achieving the goals established by the Congress for the Guaranteed Student Loan Program, (2) will demonstrate that we have developed a comprehensive capacity for effective service to students, educational institutions and lending institutions wherever the need and desire for such service may exist, and (3) will provide understanding of the perspective on which this testimony is based.

Guaranteed Student Loans and the Changing Structure of Financial Services

It should not be surprising that officers of some student loan organizations, particularly some guarantee agencies, have not been entirely pleased with emergence of the HEMAR group. By operating on a multi-state basis, the HEMAR group, and particularly the Higher Education Assistance Foundation as a loan guarantor, symbolizes the dramatic change occurring in the entire financial services industry, including student loans.

An increasing number of lending institutions no longer view their mission as serving only those who reside in a single state. Moreover, holding companies which have institutions in more than one state increasingly are recognizing the opportunity to improve effectiveness and efficiency by consolidating student loan operations in one location to serve the entire geographical area in which their lending institutions are located.

Neither a single lending institution operating on a multi-state basis nor a regional group of lending institutions with a consolidated student loan program can maximize effectiveness and efficiency utilizing the guarantees of multiple guarantee agencies. There is, then, a natural tendency for national lending institutions and groups of institutions to turn to a loan guarantor, such as the Higher Education Assistance Foundation, which will serve them on a multi-state basis.

It is also natural for lending institutions to desire the benefits of the supporting services provided by the HEMAR group. Because of the coordinating efforts of the Higher Education Management and Resources Foundation, a lender can gain access to the variety of services provided by the HEMAR group without having to seek each of these services independently. With a single contact, a lender can arrange to have loans guaranteed by the Higher Education Assistance Foundation, serviced by HEMAR Service Corporation, and purchased by one of the HELP programs. If the lender wishes assistance in originating and multiply disbursing loans, that also is available through the HEMAR group.

The attraction of lenders to the HEMAR group for comprehensive service and to the guarantee of the Higher Education Assistance Foundation to facilitate lending beyond a single state is consistent with two trends in the financial industry. One is to lend on a multi-state basis. The other is to improve profitability through enhanced efficiency.

Unfortunately, what is best for the lender may not be best for the single-state guarantee agency. The lender's use of a multi-state guarantor can curtail the growth of guarantee agencies operating within a single state. Moreover, the student's ability to obtain a loan from a lending institution outside the state in which the student resides, with the guarantee of an organization other than the guarantee agency in that state, diminishes the power of guarantee agency officials. Any such dimunition of power causes uneasiness among guarantee agency officers who, correctly or incorrectly, may have perceived their role and status to be based on their being "in charge" or "in control" of student loans in a particular state.

The availability of a multi-state guarantor also puts pressure on the single state guarantor to provide a quality of service comparable to that of the alternative. If the multi-state guarantor processes applications rapidly, the single-state guarantor is under pressure to provide the same speed of processing to avoid "losing" lenders. If the multi-state guarantor charges a lower guarantee fee, the single state guarantee agency feels pressure to reduce the fee. Such "competition" from a multi-state guarantor enhances the general quality of service of all guarantors to the benefit of both lenders and students. That competition nonetheless is disconserting to a guarantor who believes that it is unfair for a non-profit organization to compete with a state agency, even if the non-profit organization can provide better service at a lower cost.

The reality is that the Guaranteed Student Loan Program simply cannot achieve its full potential without multi-state guarantors. The so-called deregulation of the financial industry is upon us. Although the ultimate metamorphosis of the financial services industry is not entirely predictable, what is clear is that financial services, including student loans, are already being provided across state lines. Unless the Guaranteed Student Loan Program is structured consistently with the way in which financial services will be provided in the future, student loans will not command the attention which they deserve from the financial industry, and they will not be available in an adequate manner to meet student needs effectively.

We can neither turn back the clock nor can we pretend that the financial industry is any longer structured in such a way that all lending and other financial services are provided solely within the borders of each single state. Whether or not the structure of the financial industry should have changed is not relevant. The basic change has occurred and it is only the ultimate extent and conditions of further change that is uncertain.

Does this mean that state guarantee agencies have no future role in the Guaranteed Student Loan Program? I think not. Single-state guarantee agencies will continue to guarantee most loans. On the other hand, just as we no longer can expect all citizens to obtain financial services only from a bank which serves a very limited geographical area, we no longer can expect all students to obtain a loan guaranteed by an agency which serves only a single state, or for all financial institutions to have student loans guaranteed only by an agency which serves only in a single state.

Some officers of single state guarantee agencies are prone to blame problems on the existence of multi-state guarantors. For example, we hear complaints that loan recipients can continue to attend an institution which a single state guarantor believes should not be eligible for the program because a student's loan can be guaranteed by a multi-state guarantor. The fact is that without multi-state guarantors, as the program presently operates, students would still be able to attend an institution which has fallen out of favor with the state guarantor in the state in which the institution is located. It is not the existence of multi-state guarantors which prevents a state agency from eliminating all loans to students at any institution. Rather, it is the fact that students are not limited to borrowing, as they should not be, only from a lender within the borders of the state in which the educational institution is located.

It makes little difference whether a student borrowing to attend an institution in the state of Kentucky, for example, is a resident of Ohio with a loan from an Ohio bank guaranteed by the Ohio state agency, or is a resident of Kentucky with a loan from a New York lender guaranteed by the New York state agency, or is a resident of any state with a loan from a lender guaranteed by a multi-state guarantor. Unless a student is precluded from borrowing from a lender in any state other than the state in which the educational institution is located, the guarantee agency in that state cannot prevent loans from going to students at that institution.

In a national program subsidized with federal funds, a single state guarantee agency probably should not have the power to preclude receipt of loans by students attending an institution. Any guarantee agency should have the authority, based on ample grounds and utilizing some reasonable due process procedure, to withhold its guarantee from students attending an institution. An agency which does so ought also to have a responsibility to report its action to the Department of Education, which in turn should conduct an investigation to determine whether or not the educational institution should be eliminated from the list of institutions eligible for attendance by recipients of federal financial aid, including guaranteed student loans. If the Department of Education determines that the institution in question should not be attended by guaranteed student loan recipients, it then should have both the power and the responsibility to remove that institution from the list of eligible institutions.

Although the existence of multi-state guarantors may make this kind of issue more apparent, eliminating multi-state guarantors would not solve the problem. The solution lies in an amendment to the legislation which would place responsibility on every guarantor to submit evidence of basis for disqualification of an institution to the Department of Education and responsibility on the Department of Education for determining whether or not the eligibility of an institution should be revoked.

Numerous other deficiencies which periodically get blamed on the existence of multi-state guarantors similarly are not caused by multi-state guarantors. The existence of multi-state guarantors may make the problem more apparent or cause officers of single state guarantee agencies to raise the problem, but the problem is not due to multi-state guarantors.

The need for a multi-state guarantee capacity is increasing. Fortunately, meeting that increasing need does not require any change in legislation. It simply requires awareness by the Congress of the importance of multi-state loan guarantors in a changing financial services environment.

Guarantee Agency Subsidies

The testimony which I have presented over the past several years has suggested that guarantee agencies may not need to be subsidized as heavily as they are by the federal government. We put our money where our mouth is, so to speak, with the return of the $10.8 million in reserve advances which had been granted to the Higher Education Assistance Foundation. The return of these advances and the refusal to accept additional advances was not because we did not appreciate the benefit of interest earnings on free federal funds. Rather, the Foundation returned all federal advances which it had received because we thought we had a responsibility not to utilize federal funds which were not necessary to the success of the program.

We also have suggested that the Administrative Cost Allowance which we receive is not really essential to effective performance of the Foundation. This is not because the Administrative Cost Allowance is not helpful. It is. It permits us to incur some expenditures which we might otherwise curtail, and it eases our budgeting problem and makes life more comfortable. The administrative cost allowance is useful to us, but it is not absolutely essential.

Use of the Administrative Cost Allowance does involve an inherent economic inefficienty. The combination of collecting the origination fee by the federal government and paying the Administrative Cost Allowance by the federal government is a cumbersome procedure for increasing guarantee agency revenues. Greater efficiency would be achieved by reducing the origination fee and permitting guarantee agencies to increase the guarantee fee by an amount sufficient to cover whatever portion of the existing Administrative Cost Allowance is needed by the agency. The net cost to the borrower would be the same and in some instances would be less because some agencies would increase the guarantee fee by something less than the amount of Administrative Cost Allowance lost.

Over the years, my testimony also has been that guarantee agencies could assume a larger share of the cost of defaults than they are required to do under the current reinsurance formula. As you know, the existing formula causes the federal government always to bear 100 percent of the first 5 percent of defaults.

The simplest modification would be to require that the guarantee agency bear the cost of some portion, perhaps 80 to 90 percent, of all defaults. An alternative would be a formula which causes the federal government to bear an increasing percentage of the cost of defaults as default rates rise on the theory that the primary role of the federal government with respect to defaults should be to protect the guarantee agency from a financial disaster rather than to pay default costs under normal conditions. A specific plan for this alternative has been presented to this committee previously and I will be happy to submit that plan again if the Committee so desires.

If we were concerned only with the Higher Education Assistance Foundation, I could recommend elimination of the reserve advances subsidy (the Foundation has already returned all reserve advances), elimination of the Administrative Cost Allowance (the Foundation could perform effectively, although less comfortably, without the subsidy), and modification of the reinsurance formula to place a larger share of default cost on guarantee agencies (the Foundation could bear a larger cost). However, the Foundation is not the only student loan guarantor, and most guarantee agencies would view such a comprehensive reduction in federal subsidies to be a disaster. Accordingly, we believe that any reduction in the subsidies for guarantee agencies should be undertaken cautiously, with careful attention to the impact on all agencies, not just the Higher Education Assistance Foundation. The importance of each of the subsidies will vary from one guarantee agency to another as will the total amount of the subsidy required for effective operation of the agency.

Other Program Subsidies

To the extent feasible without damaging the agencies, consideration of modifications to reduce program cost to the federal government should include attention to guarantee agency subsidies in preference to modifications which would reduce federal cost through restrictive requirements to curtail eligibility for students to borrow and to modifications which would diminish availability of capital for the program.

Some increase in cost to the borrower may be feasible, particularly the amount of interest which the borrower pays in the latter years of loan repayment. By maintaining a relatively low interest rate over the life of the loan, the federal government may be providing an economic disincentive for borrowers to repay loans early. An increase in interest after the first few years of repayment has the potential for double savings - a reduction in special allowance during those years in which the borrower pays a higher rate of interest, and elimination of special allowance payments on loans which are repaid more rapidly.

An alternative method for reducing program costs obviously is to reduce the yield or return to the lender on student loans. We believe that the Congress should be extremely cautious about reducing lender yield. Use of private capital through participation of commercial lending institutions is an ingenius aspect of the program which should not be jeopardized. As compared with just a few years ago, a variety of conditions have caused student loans currently to be attractive to lenders. As those conditions may change, however, we could very well find ourselves in difficulty again if an appropriate yield to the lender is not preserved.

A reduction in yield to the lender also could have a significant negative effect on efforts of last resort lending and secondary market programs to shift from tax-exempt to taxable financing. Although we have found taxable financing to be a feasible approach to financing these programs, the margins are thin and a reduction in yield to the lender could sabotage the viability of taxable financing.

Program Reauthorization

Due primarily to the forsight and wisdom of the Congress, the Guaranteed Student Loan Program has served, and continues to serve, this nation remarkably well. As a result of the Program, students not only have opportunity to become more productive citizens by pursuing postsecondary education, they also have gained the capacity to assume responsibility for paying their own educational expenses from future earnings.

This enhances the prospects for continuing economic development and social advancement of the nation.

For such a massive program, the Guaranteed Student Loan Program is remarkably effective and operates smoothly, due to the many years of experience and refinement of the Program by the Congress. The basic structure of the program is sound, and the Congress has achieved an exemplary partnership with the private sector in stimulating the availability of private capital to meet the public purposes of education.

Guarantee agencies are important partners along with lenders in implementing the Program effectively. This effective partnership need not be disrupted by the changing structure for delivering financial services, including student loans. Of course some strains will occur. Some guarantee agencies will believe that they should have a larger share of the market. So will some lenders. Some problems will arise, but these strains and problems are minor when viewed in terms of the total program and its overall effectiveness.

The Guaranteed Student Loan Program is too important not to be reauthorized. The basic structure of the Program is too sound not to be continued. Your attention to the Program is well justified. We commend you for this attention.

The HEMAR group is privileged to be part of such a successful program. We have dedicated ourselves to providing a significant multi-state capacity to serve the needs of students, educational institutions and lenders. We appreciate your deliberate and thoughtful approach to reauthorization, and we are available to provide any assistance you may desire.

Mr. FORD. Mr. McCormick?

Mr. MCCORMICK. Thank you, Mr. Chairman. I am very appreciative of the opportunity to address the committee this morning on behalf of the National Council of Higher Education Loan Programs, an organization made up of virtually all of the guarantee agencies in this country, various secondary markets, direct lenders, and a variety of our more active commercial lenders in the Guaranteed Student Loan Program.

The basic purpose of my remarks today will be to try to summarize for you the 26 recommendations that our council made to this committee in terms of ways to improve or enhance the Guaranteed Student Loan Program in the reauthorization process. I simply wanted to highlight the major thrust of those recommendations for you this morning and answer any questions you may have.

First and foremost, I would agree with my colleague, Mr. Hawk, that the GSL program is fundamentally and basically a very sound program and has served the students of this country very well. And we feel in your reauthorization process, in essence, there should be a reaffirmation of the fundamental soundness of this program, and we should recognize the very valuable aspects of the Federal-State partnership that exists in this program and that it is working quite well.

The decision made in the 1976 amendments to fully decentralize the Guaranteed Student Loan Program and provide for State agencies was a very wise decision on the part of the Congress. And as has been reported to you earlier, you virtually have a State guarantee program in every State as a result of that legislation, and you have more participation than ever before on the part of commercial lenders. You virtually have total access in this country to student loans.

I know from my own experience Texas was one of the last States to get involved in this program. In 1980, the last full year of the FISL program in Texas, even at the height of the Middle-Income Student Assistance Act provisions, we only had virtually 400 lenders in the State participating in the Federally Insured Student Loan Program. It was an extremely unpopular program. They viewed it to be cumbersome, to be costly and involve a lot of bureaucratic red tape and they didn't particularly like to participate. As a result, only 60,000 loans were made that year amounting to $125 million.

In 1981, the Texas Guaranteed Student Loan Corporation began operating under the arrangements with the Department of Education and the Congress to provide a State-based guarantee operation. And during this past year, 1984, in just 3 short years, with the current restrictions that were placed upon us with the 1981 Budget Reconciliation Act, we expanded lender participation in that State to 573 participating lenders, and during 1984, 101,000 loans were made for a total of $241 million to students.

I think a major reason for that was not only the growing attractiveness of this program to commercial lenders, but the services provided by a local State-oriented program, putting together a group of people who are familiar with the schools and the lenders in that locale and administering a program that is tailor made to their needs, that responds to their concerns about how to participate actively and viably in this program. And we feel that that was a major reason and a major contribution to the success of this program, not only in Texas, but in States all over this country.

We feel like part of the criticism that the GSL Program receives today is unwarranted in the sense that it has done exactly what you designed it to do. It has provided loan access to students. It has been extremely effective in doing so, in recruiting the private sector to provide student assistance. And I think that this committee, and the Congress in general, should be complimented on the fact that you have made provision for such a successful student aid program over the past 20 years, and we encourage you to continue that.

Another concern that is constantly brought out in this program is the default rate and the default question. We as a Council, we as individual guarantors, are also extremely concerned about the default rate in this program. But I think it should be pointed out that during the past 5 years the overall default rate in the Guaranteed Student Loan Program dropped from 5.9 percent to 4.4 percent this past year. And we need to be ever mindful that these were loans made to students attending postsecondary institutions with not necessarily a cosigner with no collateral, with no assurance they would ever graduate, with no further assurance that they would get a job when they did graduate, and to have over $34 billion made available in this program and be able to report to you today that our default rate is 4.4 percent. I think that speaks very highly of the program and all of the parties involved in it: the commercial lenders, the guarantors, the secondary markets, etcetera.

A part of that is because the Congress has paid attention to that, and they have expressed their concern legislatively. The Department of Education has expressed their concern. And we have responded in kind at the State level to curb the default rate.

In my own State over 15 percent of my operating budget goes to collections. Twenty-one percent of the number of employees in my agency are full-time, devoted to collections. When we pay a claim and accept a default, we pursue that student, if you will, virtually to the grave. He has three choices: he can pay me back, he can die, or he can become totally disabled. The choice is his. As a result, the default rate in the State of Texas is 3.8 percent.

The second point that we would like to make in our recommendations to you is that in consideration of changes that you will make in this program that we maintain the stability of this program and the accessibility of capital to this program. And that is very important as we consider all of the recommendations that will made by various individuals and various entities in this program.

We must recognize that no matter what kind of combinations you come up with as to how to drive the Guaranteed Student Loan System, the lion's share of this program to really make it work must be borne by the Federal Government. And it is not so much a question in the final analysis that it costs too much money for this program, it is what it costs for this program to work and work well. I think that is what we need to focus on, is what does it really cost, and what does it cost for this program to work well?

In our recommendations we recognize the growing concern that individuals have over high indebtedness, and we agree wholeheartedly with others who have testified and will testify before this committee that there is a growing imbalance between the availability of grant assistance and loan assistance in these programs. And in fact, one of the most viable contributions that we could make to securing low default rates in the future is to address the imbalance between grand aid that is available and the loan assistance that is available at the present time. So, we heartily encourage in the reauthorization process that you address that point as well.

We want to maintain accessibility to loans nationwide. We have gone on record recommending that every State guarantor be required by your legislation to have a lender of last resort program to serve students in all parts of this country who may have need of a student loan to pursue their education.

A second point that we would make is that we do need to pay some attention to the simplification of these programs. Over the past 20 years these programs have grown considerably. The rules and regulations surrounding them have grown just as rapidly. And we need to take every initiative possible to eliminate areas that provide for difficult administrative barriers and create meaningless mazes that students have to go through to secure a loan or to secure a grant. We have made some suggestions as a group on how to simplify that in our paper.

Third, and a point that most of your witnesses will be discussing today, is the question of the realistic cost of this program and how much subsidy there should be to guarantee agencies in pursuing that. We agree that guarantors should accept more of the cost of this program. We have made some suggestions in our paper concerning how to do that. We also would recognize that each guarantee agency is different, in different States, different parts of the country, and you cannot come up with a hard and fast methodology to redistribute the costs and maintain some equity and maintain some assurance that you protect the decentralized State-oriented approach that you created with the Education Amendments of 1976.

But there are ways that we can redistribute those costs or share in those costs, and as an organization I think the National Council will work very hard to work with your committee and members of your staff to come up with viable suggestions to do just that.

On the part of sharing the cost with the students we strongly encourage that you eliminate the loan origination fee of 5 percent. We feel as a matter of principle that when a student feels so moved to borrow money to pay for his college costs that he should not be asked during the time that he needs the money to pay college costs to pay some other cost of the program. So we would recommend that if the students have to share any more in the cost of this program that that be targeted to the time in which they are out of school and in their repayment.

Finally, in summary, I recognize that you have to consider the reauthorization of these programs in light of a lot of very serious issues and very competing issues in terms of how to balance the budget, curb the deficit, tax reform, but I hope in your process of doing so you will not view the Guaranteed Student Loan program and virtually the other programs in title IV as part of the problem, but view them as part of the solution. Investment in the young people of this country is probably the most single important thing that we can do to insure the future of this country.

I would like to call to your attention, if I may, in closing, that in November of this year at Southwest Texas State University we will commemorate the 20th anniversary of the signing of the Higher Education Act of 1965. And I would like to take this opportunity to express my appreciation to you, Chairman Ford, and members of your committee, for joining with us in November in that celebration.

And I think something that President Lyndon Johnson said 20 years ago when you were first passing the Higher Education Act in 1965 is just as appropriate in your deliberations with the reauthorization as they were 20 years ago when he said:

> None of what we have achieved is self-executing. Laws that require equal justice must be enforced. Programs must be funded. An Education Act cannot teach a single child. A Housing Act cannot give shelter to a single family. Nor can a Manpower Act provide a single job. Nor can a Civil Rights Act provide a being the dignity and respect he deserves. The real test of our commitment is whether we are willing to achieve over a period of years only what those Acts promise.

I thank you very much for the opportunity to share these thoughts with you this morning.

Mr. FORD. Thank you very much.

[The prepared statement of Joe L. McCormick follows:]

PREPARED STATEMENT OF JOE L. MCCORMICK, PRESIDENT-ELECT, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, INC.

Mr. Chairman, members of the Subcommittee, my name is Joe McCormick. I am Executive Director of the Texas Guaranteed Student Loan Corporation. I appear before you today representing the National Council of Higher Education Loan Programs, which represents guarantors, state direct lenders, secondary markets, and others interested in this nation's program of Guaranteed Student Loans (GSLs). I very much appreciate the opportunity to appear before you today to share the views of the National Council concerning Reauthorization of the GSL Program.

The purpose of my testimony is to summarize the twenty-six Council positions on reauthorization submitted to you on April 30, 1985, and to highlight the major themes of the NCHELP position on reauthorization. Our recommendations are offered with three major elements (or themes) in mind:

1. to reaffirm the fundamental soundness and effectiveness of the GSL Program;
2. to encourage Program simplification and stability; and
3. to provide a realistic distribution of costs of the Program.

We believe that the key to Program effectiveness is the federal-state partnership under which it operates. In this partnership, Congress provides funds and policy direction, while state agencies and nonprofit entities take care of day-to-day administrative details.

In the last ten years, this decentralized model has proven amazingly successful. Measures of its success may be found in broader, more active participation by commercial lenders and greater student access to loans in every state. Frankly, I consider my own state a case study in the effectiveness of this arrangement. Even at the high point of the Middle Income Student

Assistance Act in fiscal 1980, only 448 Texas lenders participated in the Federally Insured Student Loan Program (FISLP), providing our students with a mere 60,000 loans amounting to less than $125 million. In 1981, with full support from Congress and the Department of Education, Texas established its own Guaranteed Student Loan Corporation. Three years later the Corporation had involved 573 Texas financial institutions who provided 101,000 loans totalling $241 million for fiscal 1984. We will go over $300 million this year.

I personally think that a significant indicator of the Program's success is the nature of criticism lodged against it over the past few years. Notice that today's concern is the expense of the Program and its volume-driven federal subsidies, not whether or not loans are available to needy students. This is because, in the 1970's, Congress directed guarantors to provide loan access. Guarantors accepted that challenge and have obviously fulfilled their charge. In Congress and in the states we should all be proud of the job that we have done.

While facilitating access to more loan dollars, Congress and guarantors have also worked hard to control defaults. In the last five years the Program's net default rate has dropped from 5.9% to 4.4%. The Council believes that this success is due in large part to prudent Congressional direction on due diligence and collection standards. Moreover, in Texas 15% of our Corporation's budget and 21% of its staff are devoted to the prevention and reclamation of defaulted loans. So, we consider our 3.8% state default rate to be proof that the relentless efforts of state-based guarantors do effectively cut Program losses and maintain Program integrity.

Given the GSL Program's fundamental soundness and effectivess, the Council contends that a major goal of this year's reauthorization should be the preservation of Program stability. In the main, we suggest that Congress leave the GSL Program essentially as is. Major, potentially disruptive changes should be avoided if at all possible. We think, for example, that it is especially important to maintain federal subsidies that are sufficient to ensure the continuation of today's high levels of involvement by commercial lenders.

Still, there are some important initiatives we urge Congress to pursue. One of these is a substantial increase in federal grant funds.

Such an increase will help to re-establish a proper balance between grant and loan resources for needy students. In doing so, it will help preserve access to postsecondary education while preventing the emergence of an indentured generation whose career choices, marriage and family decisions, and consumer purchase plans may be colored by unmanageable educational debts. It will also help prevent defaults by making high-risk aid recipients less dependent upon loans.

Since 1965 the proliferation and increasing complexity of student aid programs has yielded a baffling maze that many participants find difficult, if not impossible, to navigate. This inhibits access to educational opportunities and creates meaningless administrative barriers to needy students. We recommend that Congress miss no opporunity to simplify the GSL Program and other Title IV student aid programs. We have submitted specific recommendations in this area such as combining the NDSL Program into the GSL Program, eliminating the 15-year rule, and others. We think this is vital to the overall effectiveness of federal student financial aid in the United States.

Furthermore, we hope that Congress will continue to authorize revenues that help state agencies and nonprofit entities to insure the stability of the GSL Program. Over the past several years, the administrative cost allowance and other forms of federal support for guarantors have, in part, financed guarantee functions, training and technical assistance operations, preclaims assistance actiities, and other services provided by guarantors. We believe these services have been critical in maintaining the GSL Program as an easily administered, attractive, and comprehensible option for commercial lenders. In addition, the Council strongly advocates a lender of last resort in each state as well as maintaining the use of tax-exempt bonds for student loans to insure the availability of loan capital during times when the commercial lenders may be reducing their support.

The Council recognizes a need to examine the GSL Program so as to distribute its costs in a reasonable manner. We suggest that this issue be approached with the goal of establishing cost equity among participants without threatening future participation on the part of lenders, students, or state-designated guarantors. This reaffirms that the major burden for Program costs continue to be borne by the federal government and recognizes that interest rates -- the GSL Program's major cost-contributing factor -- are primarily a function of our overall economic and monetary policies. It also recognizes a political reality that Chairman Ford and others have pointed out for years: the American people are willing to help pay for postsecondary education and the efforts of our young people to secure it.

We agree that guarantors should be asked to accept an increasing share of Program expenses. However, we ask that they be given a reasonable period of time to do so and in a responsible manner reflective of their financial condition. Forty-two percent of the states are served by guarantors that are less than ten years old. Many of these have not had time to both establish reserves and recover huge startup costs. A rapid and significant redistribution of GSL Program costs at this time would threaten some of these newer agencies' continued existence in the Program.

Finally, we believe that if borrowers must shoulder greater cost burdens for their loans, they should be required to do so only after they leave school. In-school charges such as origination fees deny students resources when they are most needed. After graduation, however, most borrowers are likely to have the financial means that allow them to handle reasonable education loan debts.

In summary, the Council feels that the GSL Program today is a very effective student financial aid program and should continue to be a cornerstone in the nation's efforts to remove financial barriers to postsecondary education.

In the coming months this committee will consider the reauthorization of all federal student assistance programs from many interests and many perspectives. Serious questions will be raised concerning the future role of the federal government to meet the nation's needs for trained manpower, to provide economic stability, to control inflation, to encourage excellence in our educational system, and to meet the ever-changing demands of a rapidly developing technological society. Congress will re-examine its long-standing commitment to provide equal educational opportunities to the American people and hopefully move forward to renew that commitment and to expand its support for all Title IV student assistance programs.

In an environment of rising federal deficits, tax reform, the desire to balance the budget, and our efforts to sustain and increase economic growth and development, it may be very tempting to view the GSL Program and other Title IV student aid programs as "part of the problem, not part of the solution". It is our hope that Congress will view the federal role in higher education as "part of the solution, not part of the problem". Expenditures for postsecondary education are truly investments in human capital, our nation's greatest resource.

What former President Lyndon Johnson said almost twenty years ago seems as appropriate now as it did then:

> "But none of what we have achieved is self-executed. Laws that require equal justice must be enforced. Programs must be funded. An education act cannot teach a single child. A housing act cannot give shelter to a single family, nor can a manpower act provide a single job, nor can a civil rights act give one human being the dignity and respect he deserves. The real test of our commitment is whether we are willing to achieve over a period years what those acts only promise."

Again, I thank you, Chairman Ford and members of the Committee, for the opportunity to appear before you today. I will be happy to respond to any questions you may have.

Mr. Ford. Mr. Flippin?

Mr. Flippin. Mr. Chairman and members of the subcommittee, my name is Jim Flippin, and I am the director of the Mississippi Guarantee Student Loan Agency. This State agency is operated under the direction of the Mississippi Board of Trustees of State Institutions of Higher Learning. I sincerely appreciate being invited to appear before you today to discuss guarantee agency administration in general and the smaller and newer State agencies in particular.

First, let me give you a brief background of the Mississippi Guarantee Student Loan Agency and my experience with student financial aid. In April of 1981, by executive order of the Governor, the Board of Trustees of State Institutions of Higher Learning was named to operate the guarantee agency in Mississippi. I was employed in September of 1981 to assist in setting up the agency in Mississippi. Before my employment by the Board of Trustees, I was employed as a student financial aid administrator at the University of Mississippi, 1 year of which I spent on leave in Washington with the central staff of the Student Financial Assistance Training Program.

The Mississippi Guarantee Student Loan Agency guaranteed its first loan in April of 1982 and since that time has generated approximately $115 million in loans to approximately 54,000 students. The year prior to the Mississippi Agency guaranteeing loans, student loans were guaranteed under the auspices of the Federally Insured Student Loan Program. These loans were generated by approximately 12 lenders in Mississippi and amounted to approximately $12 million. During our last complete year the Mississippi Agency has guaranteed loans to approximately 19,000 students, totaling almost $40.5 million, originated by 124 Mississippi-based lenders. These students will attend some 600 postsecondary educational institutions throughout the Nation.

One of the primary objectives of the Mississippi Agency was to provide qualified students with the opportunity to borrow from lending institutions in their home towns. This not only provides easy and assured access to eligible students who need this loan capital to defray educational expenses, but also we hope this hometown borrowing will assist our Agency's future collection efforts. We feel that the dual responsibility of not only making these loans available but also in collecting these debts once these students leave school. We feel that thus far we have been able to accomplish both of these concepts with the 124 lenders in Mississippi participating in the program and a default rate of less than 5 percent.

The Mississippi Guarantee Student Loan Agency was established partly because of the effort of the United States Department of Education to decentralize the Federally Insured Student Loan Program and to establish a guarantee agency in each State. The Mississippi Legislature made an initial appropriation of some $200,000 to assist in the establishment of this Agency of which approximately $135,000 of that $200,000 was used to match Federal advances to help establish reserves.

The Agency was proposed as a self-funded agency, meaning no additional need for State funds, as the revenue from the insurance premiums charged to the students, the advances from the Federal

Government to establish the reserves and the administrative cost allowances would be ample to run the program.

The decentralization of the loan program to the State agency has been a good and workable concept, which I can attest to both from the financial aid administrator and the guarantee agency prospectives. No other entity has greater sensitivity to the schools, lenders or students in Mississippi than this Agency. We are Mississippians working to promote, to train, in our State, those dealing with this program in order to make low cost educational loans available to eligible borrowers who wish to continue their postsecondary education.

As a new and rather small guarantee agency, we are operating on a very austere budget. Because the Mississippi Agency is both new and rather small compared to other State agencies, the elimination of some of the previously expected revenues could have a rather profound effect on the operation of our agency.

When the Mississippi Agency entered into several agreements with the United States Department of Education, we were told, and thus expected, to receive Federal advances of some $50,000 per year for the first 5 years of operation as seed money to help establish reserves and to offset expenses on defaulted loans. Our Agency thus far has received three of these payments, but to date we have not received the fourth payment, nor do we expect to receive the fifth. The Agency received an advance for reserves of approximately $135,000, which was matched out of the initial $200,000 State appropriation which I mentioned earlier.

The Agency also expected to receive the administrative cost allowance upon signing the agreements with the Department of Education, and did so until September 1984. There was very little warning that these funds would not be forthcoming and will place our Agency in an unfortunate position should we continue not to receive these funds. Being both a new and small agency, we have not yet had the time to build our appropriate reserves, staff to full capacity and make all the necessary equipment purchases to run a sound agency.

There may be some agencies who are able to sustain their current level of service without the administrative cost allowance and some agencies who are in a position to return Federal advances. I understand that several agencies have already returned their advances; however, I think that those agencies who have returned these funds are the older and more well established agencies and not those like Mississippi where the agency has been in existence for less than 5 years.

I would like to now give you four situations on how different proposals would affect the Mississippi Agency. These situations will not address the issue of the Agency starting at a 90 percent reinsurance level and dropping to 80 percent and 70 percent reinsurance, as even if we were allowed to keep the Federal advances and were to continue to receive the administrative cost allowance, this would not allow our Agency to continue its operation without major alterations.

The first situation I would like to give you is the elimination of the administrative cost allowance and the return of all of the Federal advances. The expenses in operating the Agency in Mississippi is approximately $1,928,900. The income in this situation would be produced from insurance premiums collected from the student and a small amount of interest earned from investments. The income would be approximately $1,615,000, which would leave a deficit of $313,900.

The second situation would be the loss of only the administrative cost allowance. The expenses in this situation would be approximately $1,610,900. The income would be from insurance premiums and earned interest on investments. Income would be approximately $1,615,000, leaving a positive balance of $4,100.

The third situation would be the return of the Federal advances only. The expenses of operating the Agency would be $1,928,900. Income from administrative cost allowance, insurance premiums from students and investment earnings, given an expense of $2,115,000, leaving a positive balance of $186,000.

Situation four would be to retain the administrative cost allowance structure and retain the Federal advances. The expenses of operating the Agency in Mississippi would be approximately $1,610,900, with income from administrative cost allowance, insurance premiums and investment earnings. This income would approach $2,115,000, leaving a positive balance of a little over $500,000.

As you can see, our Agency can go from a $313,900 deficit to little over half a million dollars positive balance depending on which situation is proposed. The first three situations put the Mississippi agency in a most precarious situation with the last situation being the most viable. The last situation seems to indicate an excess of funds with the return of the Federal advances or reserves being of little concern. However, the Mississippi agency is still in the process of staffing up to meet the needs of a growing agency.

I mentioned earlier our desire to keep our default rate at a very low level. We are currently attempting to hire two additional employees in the preclaims and collections areas of our Agency with an anticipation of additional staff in these areas later on during the year. These additional staff people will also have to have tools which will cause additional expenditures during the coming months.

After 3 years of operation, our Agency is just getting ready to experience a large part of the loans originated to begin to go into repayment. We want to be prepared to assist these former students in every way that we can in their attempt to repay their loans.

As a former financial aid administrator, as a current State agency director and as a citizen, I am concerned about the reauthorization process. Not only the Guaranteed Student Loan Program, but other student aid programs as well. I am concerned about the issues of loan consolidation, debt management, and other factors affecting the Guaranteed Student Loan Program. I am concerned about our Federal budget and ways to reduce this burden. However, as you deliberate and come to conclusions concerning student financial assistance, please keep in mind that the Mississippi Guaranteed Student Loan Agency, as small and as new as we may be, does its best to provide availability of low-interest-rate loans to eligible students who in the past have not had access to such assistance. We feel that our presence in Mississippi has enhanced this availability and would like to be able to continue toward this goal.

Thank you, Mr. Chairman, for the opportunity to appear before you today in this subcommittee, and I would be happy to answer any questions.

Mr. FORD. Thank you very much.

[The prepared statement of Jim Flippin follows:]

Prepared Statement of Jim Flippin, Director, Mississippi Guarantee Student Loan Agency

Mr. Chairman and Members of the Subcommittee:

My name is Jim Flippin, and I am the Director of the Mississippi Guarantee Student Loan Agency. This is a state agency operated under the direction of the Mississippi Board of Trustees of State Institutions of Higher Learning. I sincerely appreciate being invited to appear before you today to discuss Guaranty Agency Administration in general and the smaller and newer state agencies in particular.

First, if I may, let me give you a brief background of the Mississippi Guarantee Student Loan Agency and my experience in student financial aid. In April of 1981, by executive order of the Governor, the Board of Trustees of State Institutions of Higher Learning was named to operate the Guarantee Agency in the state of Mississippi. This Board is charged with governance of the eight (8) public universities in Mississippi and some fourteen (14) student assistance programs funded by the State as well as the State Student Incentive Grant (SSIG) Program. I was employed in September of 1981 to assist in setting up the Guarantee Loan Agency in Mississippi. Before my employment by the Board of Trustees, I was employed as a Student Financial Aid Administrator at The University of Mississippi, one year of which I spent on leave here in Washington with the central staff of the Student Financial Assistant Training Program.

The Mississippi Guarantee Student Loan Agency guaranteed its first loan in April of 1982 and since that time has guaranteed approximately $115,000,000.00 in loans to approximately 54,000 students. Please keep in mind these loans were guaranteed by the Mississippi Guarantee Student Loan Agency after the $30,000.00 income cap and other modifications were made to the Guarantee Student Loan Program. The year prior to the Mississippi

Agency guaranteeing loans, student loans were guaranteed under the auspices of the Federally Insured Student Loan Program. There were approximately 12,000 loans made to students totalling approximately $12,000,000.00 under the Federally Insured Student Loan Program during the year preceding the forming of the State Agency. These loans were originated by some 12 lenders in Mississippi who were then participating in the program. During our last complete fiscal year, the Mississippi Agency has guaranteed loans to approximately 19,000 students, totalling almost $40,500,000.00, originated by some 124 Mississippi lenders with students attending some 600 postsecondary educational institutions throughout this nation.

One of the primary objectives of the Mississippi Agency was to provide qualified students the opportunity to borrow from lending institutions in their home towns. This not only provides easy and assured access to eligible students who need this loan capital to defray educational expenses but also, we hope this hometown borrowing will assist our Agency's future collection efforts. We feel the dual responsibility of not only making these loans available but also, in collecting these debts once these students leave school. We feel that thus far we have been able to accomplish both of these concepts with 124 Mississippi participating lenders and a default rate of less than five percent (5%).

The Mississippi Guarantee Student Loan Agency was established partly because of the effort by the United States Department of Education's effort to decentralize the Federally Insured Student Loan Program and to establish a guaranty agency in each state. The Mississippi Legislature made a one time initial appropriation of $200,000.00 to assist in the establishment of the agency of which approximately $135,000.00 was used to match an equal amount of Federal advance. The agency was proposed as a self-funded agency, meaning no additional need for state funds, as the revenue from the insurance premiums charged to the students, the advances from the Federal Government to establish reserves and the Administrative Cost Allowances would be ample to run the program. The decentralization of the loan program to the state agency has been a good and workable concept which I can attest to, both from the financial aid administrator and the agency prospectives. No other entity has greater sensitivity to the schools, lenders or students in Mississippi than does the Mississippi Guarantee Student Loan Agency. We are Mississippians working to promote and train, in our state, those dealing with this program, in order to make low cost educational loans available to eligible borrowers who wish to continue their postsecondary education. Whether the Mississippi Legislature would be willing to now begin funding the Guarantee Student Loan Agency to the extent of the loss of Federal Administrative Cost Allowance remains to be seen.

I have been advised that some of the recent testimony presented to this Subcommittee indicated that Guaranty Agencies were using Administrative Cost Allowances and other dollars generated by the program to fund the purchase of automobiles, build buildings and the like. None of the staff of the Mississippi Guarantee Student Loan Agency is provided with a car, nor do we have our own building, nor do we own our own computer. This being a State agency, we are housed in a State building and operate our program on a time-sharing basis on the State computer system. This is not to say I am critical of those agencies who have their own buildings and computers, as their needs or structures may require these conditions for the most efficient operation of their agencies. My point here is simply, as a new and rather small Guarantee Agency we are operating on a very austere budget. Because the Mississippi Agency is both new and rather small compared to other state agencies, the elimination of some of the previously expected revenues could have a rather profound effect on the operation of the Mississippi Agency.

When the Mississippi Agency entered into several agreements with the United States Department of Education, we were told, and thus expected, to receive Federal advances of $50,000.00 per year for the first five (5) years of operation as seed money to help establish reserves to offset our payments on defaulted loans. Our Agency has received three (3) of the payments ($150,000.00) but to date has not received the fourth payment and does not expect to receive the fifth. The Agency received an advance for reserves of approximately $135,000.00 which was matched out of the initial $200,000.00 state appropriation I mentioned earlier.

The Agency also expected to receive the Administrative Cost Allowances upon signing the agreements with the Department of Education and did so until September of 1984. There was very little warning that these funds would not be forthcoming and will place our Agency in an unfortunate position should we continue not to receive these funds. These Administrative Cost Allowances, amounting to one percent (1%) of the net amount of loans guaranteed was an important anticipated asset to our Agency. This is not to say our Agency will not be able to continue without these Administrative Cost Allowances or if we had to return our reserve funds, however, it would seem much more appropriate for our Agency to have had some previous warning they were not forthcoming which would have allowed us some time to make some adjustments. Being both a new and small Agency, we have not yet had the time to build our appropriate reserves, staff to full capacity and make all the necessary equipment purchases to run a sound Agency. I am sure the Department of Education recognizes this fact as each new agency is given five (5) full years to receive 100% reinsurance on loans guaranteed before they can reach the 90% and 80% reinsurance triggers. Our Agency may well be able to live without the Administrative Cost Allowances and could possibly return the Federal advances, but it would seem to be appropriate for there to be a gradual decline in the Administrative Cost Allowances and a given period of time after which these reserve funds would need to be returned. There may be some agencies who are able to sustain their current level of service without the Administrative Cost Allowances and some agencies who are in a position to return Federal advances. I understand that several agencies have already returned their advances, however, I think that those agencies who have returned the funds are the older and more well established agencies and not those like Mississippi where the Agency has been in existence for less than five (5) years.

I would now like to give you four (4) situations of how different proposals would affect the Mississippi Agency. The four (4) situations are: (1) the elimination of both the Administrative Cost Allowances provided by the Federal Government and also, the return of the Federal advances used to establish our reserve funds, (2) the elimination of the Administrative Cost Allowances only, (3) the return of the Federal advances only, and (4) retain the Administrative Cost Allowances and retain the Federal advances used to establish reserves. These situations will not address the issue of the Agency starting at the 90% reinsurance level and dropping to 80% and 70% reinsurance, as even if we are allowed to keep the Federal advances and were to continue to receive the Administrative Cost Allowance this would not allow our Agency to continue its operation without major alterations.

Situaton 1: Elimination of the Administrative Cost Allowances and the return of all Federal advances. The expenses in operating the Mississippi Agency would be $1,928,900.00. The only income would be insurance premiums collected from the students and a small amount of earned interest income from investments. This income would be $1,615,000.00 and would leave a $313,900.00 deficit for the Agency.

Situation 2: Loss of Administrative Cost Allowances. The expenses in operating the Agency would be $1,610,900.00. The income would be produced by insurance premiums collected from the students and earned interest from investments. Income would be $1,615,000.00 leaving a positive balance of $4,100.00.

Situation 3: Return of the Federal advances only. The expenses of operating the Agency would be $1,928,900.00. Income would be produced from the collection of the Federal Administrative Cost Allowances, insurance premiums from students and investment earnings. Income would be $2,115,000.00 leaving a positive balance of $186,000.00.

Situation 4: Retain the Administrative Cost Allowances and retain the Federal advances. The expenses of operating the Agency would be $1,610,900.00. Income would be produced from the collection of the Federal Administrative Cost Allowances, insurance premiums from students and investment earnings. Income would be $2,115,000.00 leaving a positive balance of $504,100.00.

As you can see our Agency can go from a $313,900.00 deficit to a $504,100.00 positive balance depending on which situation is proposed. The first three (3) situations put the Mississippi Agency in a most precarious situation with the last situation being the most viable. The last situation seems to indicate an excess of funds with the return of the Federal reserves being of little concern. However, the Mississippi Agency is still in the process of staffing up to meet the demands of a growing agency. I mentioned earlier our desire to keep our default rate at a very low level. We currently are attempting to employ two (2) additional people in the pre-claims and collections areas of our Agency with an anticipation of adding additional staff in these areas later during the year. Adding additional staff and the cost of equipping them with proper tools will cause additional expenditures during the coming months. After three (3) years of operation, our Agency is just getting ready to experience a large part of the loans originated to begin to go into repayment. We want to be prepared to assist these former students in every way we can in their attempts to repay these loans.

As a former financial aid administrator, as a current state agency director and as a citizen, I am concerned about the reauthorization process, not only the Guaranty Student Loan Program but, also other student aid programs. I am concerned about the issues of loan consolidation, debt management and other factors affecting the Guaranty Student Loan Program. I am concerned about our Federal budget and ways to reduce this burden. However, as you deliberate and come to conclusions concerning student financial assistance, please keep in mind that the Mississippi Guarantee Student Loan Agency, as small and new as it may be, does its best to provide availability of low interest rate loans to eligible students who in the past have not had access to such assistance. We feel that our presence in Mississippi has enhanced this availability and would like to be able to continue toward this goal.

Thank you, Mr. Chairman, for the opportunity to appear before you and this Subcommittee and I would be happy to respond to any questions that you have at this time.

Mr. Coleman?

Mr. **Coleman**. Mr. Hawk, when was your Foundation started?

Mr. **Hawk**. Mr. Coleman, the Foundation began guaranteeing loans in the fall of 1977.

Mr. **Coleman**. Could you explain what the purpose of the Federal advances?

Mr. **Hawk**. As I understand the purpose of the Federal reserve advances, they are to assist in guarantors in the establishment or strengthening of reserve funds.

Mr. **Coleman**. Is it like an emergency fund, would you say, to cover shortfalls?

Mr. **Hawk**. Well, it does provide a source from which default claims can be made. It also provides an earning asset. Now, the interest on guarantee funds are available to assist in the meeting of needs. There is a slight difference between the requirements with respect to the 1965 reserve funds and the 1976 reserve funds, but that is essentially the case.

Mr. **Coleman**. Mr. Hawk, could you explain to the committee how you have been able to return your advances to the Government. Could you explain how you were able to and Mr. Flippin would be reluctant to? Why does it impact on other agencies in a different fashion?

Mr. **Hawk**. Mr. Chairman, Mr. Coleman, I can't really speak for other agencies and their perceptions and procedures and the conditions under which they operate. At the very beginning we made the decision that it would not be wise for the Higher Education Assistance Foundation to be overly dependent upon Federal funding. I will not claim that we had any clairvoyance with respect to the budget deficit and all of the uncertainties with respect to funding, but it seemed to us in order for the program to be truly sound and for lenders to be able to depend upon the guarantee of the Foundation that we had to structure ourselves in such a manner that we were not dependent on Federal funding.

So, we initiated the program with an arrangement under which we entered into a deal with our lenders which said that every time we guarantee a loan we will deposit a significant portion of the guarantee fee which we collect to a reserve fund, which we have done. So our reserve fund expands automatically every time we guarantee a loan, and it is kind of a self-funding process.

The reserve advances were useful to us for a very brief period of time because they provided some funds until we had an opportunity to collect some reserve advances. And of course, they were useful to us over a longer period of time as an earning asset. But it was through that mechanism of taking a significant portion of every guarantee fee collected, depositing that to a reserve fund held in escrow that we were able to return the advances.

It was also through that mechanism that we were able to reduce our guarantee fee twice since the fall of 1977. In making that commitment to lenders we set up an arrangement under which according to a formula as the reserve fund increase we would be able to, as a proportion of loans outstanding we would be able to decrease the deposits to the reserve fund and therefore, the fee which is charged to student borrowers.

Mr. **Coleman**. Has any other agency returned the advance fee?

Mr. **Hawk**. Yes.

Mr. **Coleman**. Do you know how many?

Mr. **Hawk**. No; I do not, Mr. Coleman. Several organizations I think have returned some portion of the advances, and I think there is at least one other guarantor, maybe two, who have returned all.

Ten have returned all?

Mr. **McCormick**. No; not all.

Mr. **Coleman**. Ten?

Mr. **Hawk**. No. Mr. McCormick says that 10 have returned some portion of their advances.

Mr. **Coleman**. Mr. Flippin, I wonder if based on different situations, returns could be phased in over several years, if so, would have a break-even point?

Mr. **Flippin**. Mr. Coleman, I think we would have a break-even point. As my colleague, Mr. Hawk, is saying, our insurance premiums that we were charging to the students were basically deposited 100 percent, or all, in the reserve funds to help us build these reserve funds up until the point that we were no longer receiving the administrative cost allowance. The reserve funds in Mississippi total a whopping $313,000, so when you get that reserve returned back into the Federal Government we are not talking about a profound amount of money as Mr. Hawk is, $10.5 million or whatever.

We could reach a break-even, I think, in several years out. But because we are new, because we are staffing up, and because we are trying to build a good sound valid agency, these reserve funds are important to us now, as well as the administrative cost allowance. But several years out that would indeed be a possibility.

Mr. **Coleman**. Thank you.

Mr. **Ford**. Mr. Hayes?

Mr. **Hayes**. Thank you, Mr. Chairman, but my late arrival does not entitle me to the privilege of raising any questions, I don't think. I do want to comment that from what I have heard so far of the testimony from the final two witnesses of this panel, it appears that you are both in favor of the retention of the loan program for students. I was particularly impressed by the revitalizing of a memory by you, Mr. McCormick, with a direct quote from a former President of these United States, and I do agree with you it is as appropriate today as it was when he first said it and I shall use it in some of my remarks in the future.

Thank you very much.

Mr. **Ford**. Mr. Gunderson?

Mr. **Gunderson**. Thank you, Mr. Chairman. I would like to share Mr. Hayes' comments. I think all of you contributed excellent testimony to this discussion.

I guess I would like to direct my first question either to Mr. McCormick or Mr. Flippin, because there seems to be building a little bit of conflict on an attitude that has been developing here on the Hill. Many of us feel that there should be a way to save some funds and achieve some cost savings in the GSL program without directly affecting the student. I sort of get the impression from what both of you are saying, that if you are going to find savings, find them elsewhere than from any of the so-called administrative savings.

What I would like to ask you to do is to prioritize. If we as a subcommittee make decisions to reduce such things as the Federal advance, as the administrative cost allowance, et cetera, prioritize these things. What, in your opinion, is most important for the continuing of service and vitality and strength of your agencies, and in which of those programs could the Federal Government, perhaps, best achieve cost savings from our perspective—without being all that harmful to you?

Mr. FLIPPIN. If I could make a short statement to that.

Mr. GUNDERSON. Sure.

Mr. FLIPPIN. Let me speak directly as it relates to only the Mississippi Guarantee Student Loan Agency because, as my colleagues have said, it is difficult to speak about an agency somewhere that I am not nearly as sensitive to as I am my own situation.

I would say, as selfish and potentially egotistical as it may sound, yes, that is true. We need to keep receiving the administrative cost allowance in Mississippi. We need to be able to retain the Federal advances in Mississippi. We need to be able to retain the 100-percent reinsurance guarantee at least for a period of time. We have only been in operation for 3 years.

If you ask me to prioritize for you today which, if any, of these that we would need to give up today, the first one would obviously be the return of the advances. I only have $300,000 of them. They are important, because of the building of the reserves. To return them out over a period of years would be much more palatable to this agency.

The administrative cost allowance, over a period of time we could potentially give that up as well. To start with a 90-percent-reinsurance factor wouldn't work out too well for us at all. I would say, though, that even if we were to prioritize and say return the advance is second to the administrative cost allowance and then a 90-percent-reinsurance trigger from the beginning, that what we are going to have to do is to cut back on the opportunities and the availability of training and information and assistance that we give to the lending communities, to the financial aid administrators in the State and in running a very sound and solid program which, in essence, we think helps to provide a great service for the potential students in Mississippi to receive these loans.

Mr. COLEMAN. Mr. McCormick?

Mr. MCCORMICK. Thank you, sir. It is a question I guess I wish I had a very simple answer to, in that it would look good on my résumé if nothing else. But it is a very complex issue in that each State's own experience with how they got into the Guaranteed Student Loan program is somewhat different. We have, as I said in my testimony, Texas and Mississippi are the Johnny-come-latelies. We have just, really, been in this program less than 5 years. Sitting behind me is Dr. Cronin from the State of Massachusetts, and they have been guaranteeing loans since 1956. So you know, to answer your question I, first of all, would definitely have to answer from only my State's perspective.

Mr. COLEMAN. Sure.

Mr. MCCORMICK. And I couldn't speak for the entire association of guarantee agencies, NCHELP, in that regard.

If we just had to give up something, we probably could give up the administrative cost allowance first. Our State is involved in the issuance of tax-exempt bonds. We have entities that issue tax-exempt bonds for the purpose of purchasing student loans. We entered into agreements with those entities to maintain a certain level of our reserves.

Now, being a new entity, it takes time, as I think Mr. Hawk would agree, for you to build your reserves. And we are under contractual obligation, as many State guarantee agencies are in various parts of the country, to maintain those reserves at a certain level. So we would have great difficulty in just returning the advances, say, next year, if you passed a law that said we had to do that, because there would be certain contractual obligations that we would have to take a look at in terms of would our reserve go below what we had originally agreed to with the understanding we had of the way the reinsurance trigger worked and the advances worked at that time.

I think the thing that we have to take a look at, in terms of administering the agency the point that I would like to make in response to your question is sure, I could take less and perform a guarantee service, but I can't say to you that I would perform that service at the level I am performing it now. I would probably have to cut back on some of the services that I render to my schools and my lenders.

Therein lies the question of how much service do you want the guarantee agencies to provide in relation to what you are willing to contribute to that in the way of the incentives that are provided at the Federal level. Because not all entities are State agencies by any means. Some of us are public nonprofit entities and we receive no support whatsoever from the State that we provide the service for. So I can't say to you that if you take away a benefit or a service the State of Texas would be more than willing or happy to pick up that service.

I could say to you the likelihood is probably they would not be willing to pick up.

Mr. Gunderson. Being a former State legislator and getting into a little bit of the Federal-State battle of whose responsibility is what, let me follow up with a question to any or all of you.

And I only have two more questions, Mr. Chairman.

Why should the Federal Government be responsible for 100 percent of the guarantee? Why shouldn't the State pick up, say, 10 percent of that?

Mr. Hawk. Well, Mr. Chairman, and, Mr. Gunderson, I don't think the Federal Government should pay 100 percent of the cost of defaults. I think whoever the guarantor is, whether it is the State or an organization which is not part of State government, should bear a reasonable portion of the cost of defaults.

And as I have said before, I think the formula really is backwards. The way the formula is structured now, and I understand the advantages of that at one time in the program, but the way the formula is structured now under normal conditions to keep the default rate under 5 percent the Federal Government bears all the cost of defaults. I think that ought to be turned around where under normal conditions the guarantor bears the first portion of defaults and the Federal Government provides the protection against a disaster which only the Federal Government has the capability to stand behind.

One deficiency in the arrangement under which after you get above 5 percent the guarantor is exposed for some percentage clear down to the very last loan gave great difficulty in dealing with the issue of what kind of reserves are adequate. Because theoretically there could be a catastrophe, a major depression, under which 100 percent of loans went into default. In the event of that kind of catastrophe a guarantee agency which did not have sufficient reserves to cover 20 percent, or 18.6 percent on every last loan which had ever been guaranteed would not be able to perform.

So I agree with your basic point, or what I perceive to be the intent of your question. I think the guarantor should under normal conditions bear some reasonable portion of costs, and the most important thing is that it be structured in such a manner that the Federal Government prevents a disaster in the case of a catastrophic situation which would cause a collapse.

Mr. **Gunderson**. Any other comments?

Mr. **Flippin**. I would just like to provide a brief comment. Just to simply point out the fact that some agencies are newer and less experienced than other agencies. So for an exposure to a small, new agency or whatever of any kind until some type of grace period runs, or a grandfather period, would have potential devastating effects to our agency.

Mr. **Hawk**. Mr. Gunderson, if I may just add I did say in my own testimony, and I want to repeat it, I don't think subsidies for guarantee agencies ought to be reduced without careful attention to the impact on all agencies. So when I respond, I respond in terms of my own context.

Mr. **Gunderson**. Sure.

Just a final quick answer if I can. Would the concept of multiple disbursement of loans present any problems for any of you?

Mr. **Hawk**. Mr. Gunderson, we are engaged in multiply disbursing loans at the present time. I think multiple disbursement of loans is highly desirable.

I must admit I do have some nervousness about a requirement for every lender to disburse loans multiply. Multiple disbursement of a guaranteed student loan is more complex than what it appears on the surface. It is not just as simple as writing two checks instead of one for a whole variety of reasons relating to the structure of the program and the differential timing when semesters or quarters begin at different institutions and a lot of factors.

If you decide to require multiple disbursement, which I favor, I think you have to recognize that there will be some areas on the part of some lenders, particularly small lenders, until they fully adjust to all of the implications.

Mr. **Gunderson**. Thank you. Thank you, Mr. Chairman.

Mr. **Ford**. Thank you.

Along the line that Steve was just pursuing, I am looking at the GAO figures that were submitted this morning, "Comparison of Federal Advances Outstanding with Reserves for Each Guarantee Agency as of April 1985." It illustrates the point that Mr. Flippin is making while making a number of other points.

If you look at the amount of total reserves, in dollar amounts you see wide disparities. But then what is even more revealing is when you go over to see what part of the cash or what part of the total reserves being held by the guarantee agencies is made up out of Federal advances, and they range from zero in the State of Massachusetts, since you apparently, Mr. Cronin, have paid your money all back, to 141 percent in America Samoa. But don't get excited because they only have a reserve of $106,000.

For the States that are here it is interesting. The District of Columbia has only 1 percent of its total reserves from Federal advances, and its total reserves rank pretty well up toward the upper bracket of reserves in programs. That is kind of interesting. I have never seen the District do anything that efficiently before.

Is that yours, Dick?

Mr. HAWK. Mr. Chairman, the Higher Education Assistance Foundation is the guarantor in the District of Columbia. There is something you should know.

Mr. FORD. Could we hire you to run the rest of the Government in the District?

Mr. HAWK. There is one thing you should know about those data. Those data report reserve advances which have been made for political entities. Now, the Higher Education Assistance Foundation, which is the designated guarantor in the District and several States, never received any of the 1965 reserve advances. So you may see some advances listed as outstanding for those political subdivisions even though the Foundation, which is the designated guarantor in those States, has returned all reserve advances.

The District of Columbia is a good example of that. We are guaranteeing loans there, and that really should be zero rather than 1 percent. I suspect we reflect some 1965 advances which were previously allocated elsewhere.

Mr. FORD. Well, maybe that explains why Minnesota looks so much better than Michigan.

But for the interest of the members, here in Texas, Mr. McCormick, the advances represent 59 percent of your cash and 49 percent of your total reserves against total reserves of $13 million. But in Missouri, against total reserves of $16 million they represent 39 percent. And in my own State of Michigan they represent 10.6 percent. Some of these States, you look at Michigan and Wisconsin and they are very similar in the dollar amounts and the percentages, but the variance here, from one end to the other, suggests that this does indeed have to be looked at rather carefully and skillfully to see why the variance occurs and what would happen if you did something that tilted the teeter-totter all in one direction at the same time.

We will want to spend some time with people like you, Mr. Hawk, that can add the footnotes that GAO doesn't have here to agencies such as your own and how they impact on this.

Rhode Island has bigger reserves than we have in Michigan and has only 1.1 percent of their reserves still in advances. Do they have a big outside agency in Rhode Island?

Mr. HAWK. Not to my knowledge.

Mr. FORD. Why are they doing so much better than we are according to these figures?

Mr. Hawk. I don't know the answer to that question.

Mr. Ford. But the most important State, Vermont, is 28.8 of it reserves from Federal advances.

Mr. Hawk. Thank you very much for your testimony, gentlemen.

Mr. Ford. Mr. Roy Nicholson, President, United Student Aid Funds, Inc.; and Dr. Joe Leone, Chancellor, State Regents for Higher Education in Oklahoma, who is accompanied by Dr. Larry Nutter, Vice Chancellor for Student Assistance Programs; and Katherine Ozer, Legislative Director, United States Student Association.

The prepared testimony of each of the witnesses on the panel will be inserted in the record. We will start first with Mr. Nicholson.

STATEMENTS OF ROY A. NICHOLSON, PRESIDENT, UNITED STUDENT AID FUNDS, INC.; JOSEPH A. LEONE, PH.D., CHANCELLOR, THE OKLAHOMA STATE SYSTEM OF HIGHER EDUCATION AND CHAIRMAN, STATE HIGHER EDUCATION EXECUTIVE OFFICERS [SHEEO] FEDERAL RELATIONS COMMITTEE, ACCOMPANIED BY LARRY NUTTER, VICE CHANCELLOR FOR STUDENT ASSISTANCE PROGRAMS, AND KATHERINE OZER, LEGISLATIVE DIRECTOR, UNITED STATES STUDENT ASSOCIATION

Mr. Nicholson. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you today. My name is Roy Nicholson, and I represent United Student Aid Funds.

United Student Aid Funds is a private, not-for-profit corporation organized in 1960 which has been providing education loan-related services to students and parents throughout the country for the past 25 years. We recently passed the $6 billion mark in Guaranteed Student Loans processed.

I have been asked to address you today regarding the topic of guarantee agency financing and administration. I began from the understanding that the partnership between the Federal Government and the guarantee agencies in the administration of the federally sponsored student loan programs has been enormously successful. So my suggestions today are designed to strengthen and enhance that partnership.

To ensure that continued success of the Federal Government-guarantee agency partnership, USA Funds suggest five important changes be made to the Higher Education Act. These five changes constitute a specific plan designed to reduce or control Federal expenditures in the program and at the same time ensure continued access to loan capital for parents and students.

First, we propose that the Act be amended to provide a method for the return of the Federal advances. USA Funds recommends that the payment of these advances is an appropriate way to offset the cost to the Federal Government of the administration of this program.

There has been much talk this morning already about the advances. I think it is important to note that there are two types of advances arising out of section 422 of the Higher Education Act. There are advances known as 422(a) advances and other advances known as 422(c) advances.

USA Funds currently holds approximately $5 million of 422(a) advances which we received from the Federal Government in 1966 and 1967 in order to ensure access to student loans in 37 States. We believe these advances are no longer necessary or vital for the program, and we advocate the return of all such 422(a) advances at the determination of the Congress that they should be returned.

In recent years we have also received $4.6 million of 422(c) advances which were provided to us in order to start programs for guaranteeing student loans in Arizona, Hawaii, and certain Pacific Islands. The 422(c) advances arise out of the Higher Education Act Amendments of 1976 and were designed to encourage States to create new guarantee agencies, those States who hadn't previously done so.

We believe, as does Dr. Flippin from Mississippi on the previous panel, that these new agencies need the continued protection afforded by the 422(c) advances. However, we believe that after the tenth year of operation with 422(c) advances a financial analysis ought to be done to determine whether those funds could also be returned to the Federal Government. We believe that if the funds have not been used to make default payments prior to that time, then they should be returned to the Federal Government.

Our second proposal, the second piece of our plan, is that the act be amended in order to require each guarantor to establish and maintain a default reserve. Under current provisions of the act guarantors are not required to set aside moneys, except the Federal advances that they have received, to protect against defaults. As a result, critical opinion is divided as to whether guarantors have too much or too little money in reserve. However, if the Congress were to require that each guarantee agency establish a default reserve equal to 1 percent of the amount of the loans guaranteed, then guarantors could then absorb 5 percent of all claim amounts up to a 20 percent default rate.

A statutorily mandated reserve would reduce the complexity of current guarantor financing and, more importantly, would provide uniformity among guarantors for new loans guaranteed.

Our third proposal is that the Act be amended to provide 95 percent reinsurance on new loans guaranteed up to a catastrophic default rate of 20 percent at which time a 100-percent reinsurance rate would apply. A 95-percent reinsurance rate on new loans would require each agency to be responsible for a share of the defaults and would encourage guarantors to work harder to control defaults.

The current reinsurance formula, as has been discussed this morning, permits many guarantors to amass significant reserves against defaults at the same time that they are receiving 100 percent reinsurance from the Federal Government. As was stated earlier, in fiscal year 1984 the Federal Government reinsured 98.5 percent of all claims, and most guarantee agencies received 100 percent coverage throughout the entire year.

The 95 percent reinsurance level is the fundamental assumption underlying USA Funds plan. USA Funds believes that the guarantors, each and every one, should participate in the liability and share in the payment of default claims.

Obviously the Federal reinsurance rate would have a direct impact on the guarantee fee paid by the students. Because the balance between the Federal reinsurance rate and the guarantee fee paid by students is so important, USA Funds believes that a default reserve funded at a level of 1 percent of new loans outstanding, coupled with a 95-percent reinsurance for so long as defaults do not exceed 20 percent, represents the best set of assumptions for funding this program.

Our fourth proposal is that the act be amended to impose a flat guarantee fee of 3 percent for all new loans guaranteed. In its current form the Act contains provisions that allow for some flexibility in the calculation of the guarantee fee among the guarantee agencies. But more than flexibility, these provisions on the guarantee fees have bred confusion on the part of both lenders and borrowers throughout the country.

By imposing a flat fee of 3 percent of the loan amount for each student, all borrowers would be charged the same amount per dollar borrowed. A flat rate guarantee fee would also ensure that all borrowers are treated equitably and that all guarantors have sufficient funds both to fund the default reserve and to pay operating expenses.

Our fifth and final proposal is that in the event the Act is amended to impose a flat rate 3 percent guarantee fee, the Act should also be amended to eliminate administrative cost allowance payments. A flat rate guarantee fee will provide sufficient funding to assure that the vital functions currently funded by the administrative cost allowance are still performed by guarantee agencies. Those functions include preclaims assistance, status monitoring, collection assistance, and monitoring lender and school performance.

USA Funds believes that this plan, this package of five specific proposals will reduce the complexity of guarantee agency financing while simultaneously maintaining the strength of the partnership between the Federal Government and the guarantors in the administration of the Student and Parent Loan Programs.

Thank you. I will be happy to answer any questions you might have.

Mr. FORD. Thank you.

[The prepared statement of Roy A. Nicholson follows:]

PREPARED STATEMENT OF ROY A. NICHOLSON, PRESIDENT, UNITED STUDENT AID FUNDS, INC.

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to appear before you in order to discuss several matters relating to the administration and financing of loan guarantee activities performed pursuant to Title IV, Part B of the Higher Education Act of 1965, as amended (the "Higher Education Act"). I am especially pleased to present the perspective of United Student Aid Funds, Inc. ("USA Funds") on these activities and to address issues which are of utmost importance to USA Funds in the reauthorization process.

USA Funds' perspective on the administration and financing of loan guarantee activities is necessarily rooted in its twenty-five years of experience in ensuring borrower access to education loans. USA Funds was organized in 1960 and was established in order to provide a full array of services essential to the support of the education financing and credit needs of postsecondary students. USA Funds is a private, not-for-profit corporation which guarantees and services throughout the United States education loans made to students and parents by participating commercial banks, savings institutions, credit unions and insurance companies. Through December 31, 1984, USA Funds processed and guaranteed, independently or as agent, over $6.2 billion in loans for almost 3 million students and parents. Among USA Funds' programs are:

- The programs in which individual guarantee agencies contract with USA Funds to act as their processing, default-prevention, and default collection agent in administering education loan programs for students and parents in those states. USA Funds currently serves ten guarantee agencies in this capacity: Alaska, Delaware, Indiana, Iowa, Maine, Maryland, Missouri, Montana, Nevada and the U.S. Virgin Islands.

- The National Access Program, in which USA Funds makes loans available to those unable to secure them through established channels.

- The Corporate Loan Program, in which corporations, associations and other organizations assist USA Funds in the support of programs which improve access to education loans for the children of employees, family members or other designated students.

- The PLUS Program, in which USA Funds guarantees loans to the parents of students and to graduate and independent students. In this capacity, USA Funds currently serves as the designated guarantor for Arkansas, Louisiana, and Oklahoma, as well as Arizona, Hawaii and certain Pacific Islands.

- The Arizona Educational Loan Program, the Hawaii Educational Loan Program and the Pacific Islands Educational Loan Program, in which USA Funds operates the respective designated guaranteed education loan programs as principal, not as a contract servicer for the state.

USA Funds currently employs over 500 skilled professional workers and has offices in New York, New York, Phoenix, Arizona, San Francisco, California, Honolulu, Hawaii and Des Moines, Iowa. Its headquarters and processing facilities are located in Indianapolis, Indiana.

From its inception, USA Funds has actively pursued the development of efficient and effective programs in support of lenders, guarantors, schools and borrowers. In so doing USA Funds has come to realize the critical significance of adequate funding resources for loan guarantors; in fact, USA Funds believes that without adequate funding for the guarantors which administer the guaranteed student and parent loan programs, lender participation would be seriously restricted and borrower access to loan capital would be irreparably eroded. In order to assure that access to education loans is not impaired, USA Funds has examined several possible ways in which the Higher Education Act can be amended so as to simplify and strengthen the financing and administration of loan guarantee activities.

It is important to note that the benchmarks of the recommendations of USA Funds are simplification and strength. As all participants in the guaranteed student and parent loan programs know, the financing of loan guarantee activities is a complex matrix of interacting funding sources of federal dollars and borrower fees. This financing complexity is exacerbated by the array of different types of loan guarantors -- some small and others large, some national and others regional or state, some old and others new, some with all federal funds, some with partial federal funding, some charging full guarantee fees and others not. The combinations of these features are seemingly endless. USA Funds is convinced that simplification offers a number of opportunities to assure that there will be equitable financing among different types of guarantors, that guarantors will have built-in incentives to increase the level of their performance and that the federal government's interest in the guaranteed student and parent loan programs will be firmly maintained without the same commitment of federal monies.

It is also important to recognize that, in spite of the obvious complexity of interaction between current funding sources, only two sources of funding loan guarantee activity realistically exist: the federal government and the student or parent borrower. USA Funds believes that a prudent and fair joint effort by the federal government and borrowers is needed to assure that the guaranteed student and parent loan programs grow in strength at the same time that the costs of such programs are controlled in an equitable way. And USA Funds is convinced that strengthened, cost-effective guaranteed student and parent loan programs are vitally important to our nation's future.

Based upon its concern that the reauthorization process should result in equitable financing among different types of guarantors, in incentives to improve programmatic efficiency and in a continued, central role for the federal government, USA Funds suggests that the Higher Education Act be amended so as to simplify and strengthen the financing and administration of loan guarantee activities. USA Funds recommends the following changes:

Federal Advances

THE HIGHER EDUCATION ACT SHOULD BE AMENDED IN ORDER TO PROVIDE A METHOD FOR THE RETURN OF FEDERAL ADVANCES WHICH IS UNIFORM AND CONSISTENT WITH THE PURPOSES FOR WHICH SUCH ADVANCES WERE ORIGINALLY MADE.

In its current form, the Higher Education Act authorizes the Secretary of Education to make advances for the purpose of establishing or strengthening reserve funds of state and nonprofit private loan insurance programs (the "422(a) Advances") and for the purpose of making payments under the guarantor's insurance obligations under such program (the "422(c) Advances").

For the reasons which follow, USA Funds recommends that repayment of these advances is an appropriate way to reduce the costs to the federal government of the guaranteed student and parent loan programs.

The 422(a) Advances were made originally to states in order to build a firm foundation for the guaranteed student loan program through the establishment and strengthening of reserve funds so that students attending eligible institutions would have access to student loans. If, for any fiscal year, a state did not have a student loan insurance program and showed no reasonable likelihood that it would have such a program, the Secretary could make advances for the same purpose to one or more nonprofit private institutions. To date, $18,470,488 has been disbursed for 422(a) Advances and $13,572,079 is currently outstanding. USA Funds received $5,125,298 in 422(a) Advances directly from the federal government and $1,834,080 in 422(a) Advances which were initially paid to individual states but which states deposited with USA Funds in order to provide loan access. USA Funds provided this access in 37 states without the benefit of reinsurance for nearly ten years. The 422(a) Advance funds were increased by guarantee fees and interest earnings, but the cost of administering the programs, as well as the impact of defaults, has appreciably reduced the overall reserve capacity. Today, USA Funds has $21,365,683 in loans outstanding encumbered against the monies received from states and from the federal government, but the amount of principal and interest of loans outstanding has been steadily decreasing. It is appropriate, therefore, that the amounts received in 422(a) Advances be evaluated for return to the federal government without undue risk to the guarantor, lender or borrower.

The current statutory provisions require that the Secretary of Education determine when the 422(a) Advances may be repaid. In view of the fact that only $4,898,409 of the $18,470,488 in 422(a) Advances have been repaid to date and that such advances are no longer essential to the vitality of the programs, USA Funds suggests that the amounts received should be returned.

For the guaranteed student loan program in general, the return of the 422(a) Advances will provide the federal government a one-time cost savings without creating any imposition on the borrowers or other program participants. Because 422(a) Advances are no longer generally used to guarantee new loans, and because the loans encumbered against these advances are essentially low risk loans which should be paid in full within a relatively short period of time, USA Funds recommends that Congress amend section 422(a) of the Higher Education Act to call for the return of all 422(a) Advances.

USA Funds received 422(c) Advances only in those states in which USA Funds serves as the designated guarantor. To date, USA Funds has received $3,068,738 in 422(c) Advances for the Arizona Educational Loan Program and, if FY 85 422(c) Advances are paid, Arizona will receive an additional $3,376,083. The Hawaii Educational Loan Program has received $968,802 in 422(c) Advances and the Pacific Islands Educational Loan Program has received $600,000 and expects an additional $400,000 if payments are continued for FY 85 and FY 86.

Unlike the 422(a) Advances, the 422(c) Advances are to be used only to pay for defaults. Funds held for this purpose may earn interest, but guarantee fees are not added to them. Therefore, most loan guarantors use the 422(c) Advances to make payments to lenders for default claims in advance of their being reimbursed by the federal government. The 422(c) Advances are also used after a guarantor is no longer 100% reinsured (after the guarantor's fifth year in the program) in order to pay for its default exposure.

The 422(c) Advances are necessary for those guarantee programs which are considered "new" and which were created as a result of the 1976 amendments to the Higher Education Act. These programs need the protection of the 422(c) Advances to meet their required obligations under state statutory provisions or lender agreements and to make payments under existing programmatic criteria. On the other hand, existing procedures for the return of the 422(c) Advances may allow states to keep advances unnecessarily. Therefore, USA Funds recommends that the statutory language governing the return of the 422(c) Advances be amended.

Under the method recommended by USA Funds for the return of the 422(c) Advances, a guarantor would evaluate its financial strength at the end of its tenth year of operation with the 422(c) Advances. If at this time the guarantor determines that the 422(c) Advances had not been depleted because the guarantor had received 100% reinsurance, the 422(c) Advances would be returned. However, if the guarantor had used its 422(c) Advances to make obligatory default payments, these amounts covering this exposure would not be returned to the federal government. Under USA Funds' plan to return 422(c) Advances, guarantors will necessarily have sufficient default reserves at the end of the tenth year without the need for 422(c) Advances.

USA Funds' recommendation for the return of 422(c) Advances has many advantages over the current statutory provisions. First of all, it provides for the earlier return of unused advances while protecting guarantors which need the advances. The changes would also provide incentives for guarantors to control defaults so that 100% reinsurance is maintained and would create an incentive for guarantors to fund reserves without the reliance of the federal government, in the event that the guarantor is not 100% reinsured. Unlike the return of the 422(a) Advances, which provides a one-time return of funds, the return of 422(c) Advances could occur over a number of years.

The method recommended by USA Funds for the return of both the 422(a) Advances and the 422(c) Advances clearly simplifies a complicated statutory procedure and also helps to assure equitable financing among the different types of guarantors by treating all alike with respect to repayment of the 422(a) Advances and by giving newer guarantors the same advantages as the older guarantors received with respect to the 422(c) Advances. USA Funds believes that this approach creates strong incentives to improve guarantor performance, while implementing cost savings for the federal government in the current and out years.

Default Reserve

THE HIGHER EDUCATION ACT SHOULD BE AMENDED IN ORDER TO REQUIRE EACH GUARANTOR TO ESTABLISH AND MAINTAIN A DEFAULT RESERVE WHICH WOULD AT ALL TIMES PROVIDE ADEQUATE COVERAGE AGAINST DEFAULT EXPOSURE.

USA Funds suggests that Congress should amend the Higher Education Act to require each loan guarantor to establish and maintain a specially segregated reserve fund (the "Default Reserve") which would at all times provide coverage against default exposure. Funding levels for this Default Reserve should be predicated on the assumption (outlined below) of 95% reinsurance with sufficient funding to cover a 20% cumulative default rate. Using these assumptions, guarantors would be required to maintain their respective Default Reserves in amounts equal to 1% of all new loans guaranteed so that the Default Reserve would at all times equal 1% of the outstandings of new loans guaranteed. The Default Reserve would be funded by guarantee fees and interest earnings, and the payments which could be made from the Default Reserve would be limited to cash payments of lender claims prior to reimbursement by the federal government and payments by the guarantor of its 5% exposure on every default purchased.

A statutory mandated reserve such as the Default Reserve would reduce the complexity of current guarantor financing and, more importantly, would provide uniformity among guarantors for new loans guaranteed. Under current provisions of the Higher Education Act, guarantors are not required to set aside any monies, other than federal advances, for defaults. As a result, critical opinion is divided as to whether guarantors are either reserving too much or too little money. However, were Congress to require guarantors to establish a 1% Default Reserve, guarantors could absorb 5% of all claim amounts up to a 20% default rate. Such a benchmark would establish essential uniformity among guarantors, at least for new loans guaranteed.

The Default Reserve would also help to instill needed confidence in loan guarantors. As a consequence of current law, there is a growing insecurity among lenders with respect to the inconsistency of reserve requirements. A mandated reserve such as the Default Reserve, while providing 100% reinsurance in the event of a 20% default rate, assures lenders of full claim payments from every guarantor. In addition, the Default Reserve would help to assure the federal government that each guarantor is fully protected on new loans guaranteed and able to fund cash flow shortfalls on payments made to lenders prior to federal reinsurance reimbursement. It would also serve to assure the federal government that guarantors are neither overfunded nor shortfunded. The Default Reserve is a relatively simple finance model which provides needed security to every participant in the guaranteed student and parent loan programs. Because the only purposes for which the Default Reserve could be used are the making of claim payments to lenders before federal reimbursement and the funding of the guarantor's 5% reinsurance exposure, the Default Reserve could not be used to defray past, present or future operating costs or past default costs.

The primary source for funding of the Default Reserve would be the borrower, with interest earnings on the reserve serving as a secondary source. As USA Funds envisions such an arrangement, each borrower would be charged a guarantee fee, a portion of which would be set aside to fund the Default Reserve. Obviously, the federal reinsurance rate would have direct and immediate impact on the guarantee fee to be charged to the borrower; because the balance between these two forces is so delicate, USA Funds believes that a Default Reserve funded at a level of

1% of new loans outstanding, coupled with 95% reinsurance for so long as defaults do not exceed 20%, represents the most prudent set of funding assumptions.

There are several significant advantages to requiring each loan guarantor to establish and maintain a Default Reserve:

- The Default Reserve assures equitable financing for all types of guarantors. There should be no concern that some guarantors have too much or too little in their reserves. Each guarantor would be required to reserve the same percent of the outstandings on new loans guaranteed.

- The Default Reserve would create an incentive for each guarantor to improve its level of performance by trying to prevent defaults. Also, each guarantor would be limited to an equal percentage of new loans guaranteed for operating expenses, thereby creating an incentive for guarantors to operate more efficiently on limited funds. This combination of the tension created by limited operation funding and a predictable default exposure does not exist under the current financing mechanisms.

- The Default Reserve would permit the federal role to be maintained while reducing the commitment (100% reinsurance and 1% administrative cost allowance) of federal monies.

Reinsurance

THE HIGHER EDUCATION ACT SHOULD BE AMENDED SO AS TO PROVIDE 95% REINSURANCE ON NEW LOANS GUARANTEED, UP TO A CATASTROPHE DEFAULT RATE OF 20%, WITH 100% REINSURANCE THEREAFTER.

For several reasons, USA Funds believes that the current reinsurance formula should be significantly changed. Initially, the existing reinsurance formula effectively discriminates in favor of older loan guarantors which have relatively large repayment loan portfolios as compared to new guarantors. The existing reinsurance formula also often impresses an unduly punitive stamp on guarantors serving states which have suffered disproportionately from economic or social adversity. The final inequity in the current reinsurance formula is that it permits certain guarantors to amass significant reserves against defaults even as such guarantors are receiving 100% reinsurance. In fact, as all guarantors mature, under the current reinsurance formula 100% reinsurance is practically guaranteed.

A 95% reinsurance rate on new loans guaranteed would eliminate the inequities and negative connotations in the current reinsurance mechanism. More importantly, it would require each agency to be responsible for a specified share of the defaults purchased, thereby encouraging guarantors to increase preclaims assistance and monitor enrollment status. Guarantors would have an incentive to keep default purchases low while still maintaining loan access.

As has been previously indicated, an amount equal to 1% of new loans outstanding sufficiently funds a Default Reserve if a 95% reinsurance rate and a maximum default rate of 20% are assumed. Since guarantors would be encouraged to keep default purchases low, the 20% default rate could be considered a catastrophe rate. If this default rate should occur, however, the Default Reserve would be depleted; in that event, USA Funds recommends that loans become 100% reinsured.

A 95% reinsurance level is the fundamental assumption underlying USA Funds' recommendation of a Default Reserve. USA Funds believes that guarantors should be responsible for paying their share of defaults. If guarantors do not pay a share of defaults, the inequities of guarantee financing will be maintained within the Higher Education Act and appropriate incentives to operate well-managed programs will not exist. Most of all, with 95% reinsurance the roles of the federal government as well as the guarantors in the administration of guaranteed loans are clearly established. If the recommendations of USA Funds are fully implemented, the federal government's share of default payments will be reduced as compared to its present share and greater incentives will exist to control default rates.

Guarantee Fee

THE HIGHER EDUCATION ACT SHOULD BE AMENDED SO AS TO IMPOSE A FLAT RATE GUARANTEE FEE OF 3.0% FOR ALL NEW LOANS GUARANTEED.

In its current form, the Higher Education Act contains provisions pertaining to the charging of guarantee fees which were intended to provide flexibility but which have instead bred confusion and mistrust on the part of lenders and borrowers. A uniformly established and implemented guarantee fee could help to end much of this confusion and mistrust, while at the same time serving to eliminate the possibility of programmatic abuse. Although such a fee might be perceived as increasing the burden placed upon borrowers, in fact such an increase would be minimal and entirely appropriate to the concept of shared responsibility for funding the guaranteed student and parent loan programs. In such an arrangement, borrowers have a responsibility to help to assure that the ability to receive a guaranteed student or parent loan continues to exist. Part of this responsibility includes paying for the administration of the guarantee -- without which such loans would not be available.

By imposing a flat rate fee of 3% of the loan amount, all borrowers would be charged the same amount per dollar amount of the loan. Although a flat rate fee may appear to be an increase in the guarantee fee, for some students fee charges would in fact be reduced. Also, a flat rate fee would require borrowers who receive funds for short loan periods to pay a greater share of the administrative and default burdens than that which is charged under current practices. Many recent studies demonstrate that these students present an unusually high risk of default. A 3% flat rate guarantee fee would assure that these borrowers pay a fair share of the cost of guaranteeing these types of loans.

In summary, a flat rate guarantee fee assures that there will be equitable financing for all types of guarantors to meet default reserve requirements and operating expenses. By limiting the amount of guarantee fee which could be used to fund operating expenses, a guarantor would be encouraged to improve its level of performance through the efficient use of those dollars which are available.

Administrative Cost Allowances

IN THE EVENT THAT THE HIGHER EDUCATION ACT IS AMENDED SO AS TO IMPOSE A FLAT RATE GUARANTEE FEE OF 3%, THE HIGHER EDUCATION ACT SHOULD ALSO BE AMENDED SO AS TO ELIMINATE ADMINISTRATIVE COST ALLOWANCE PAYMENTS TO GUARANTORS.

Currently, administrative cost allowance payments are used by guarantors to perform functions which Congress has defined as essential to the success of the guaranted student and parent loan programs. By statute each guarantor receiving administrative cost allowance payments must apply such payments solely to defraying (i) the administrative costs of promotion of commercial lender participation, (ii) the administrative costs of collection of loans; (iii) the administrative costs of preclaims assistance for default prevention, (iv) the administrative costs of monitoring the enrollment and repayment status of students, or (v) such other costs related to the guaranteed student and parent loan programs as the guarantor and the Secretary of Education agree upon in advance of payment. This list of functions was articulated by Congress as a listing of elements central to these programs, ones for which some federal assistance was both necessary and appropriate. Congress has clearly indicated its view that lender participation, loan collection and default prevention are essential to the success of the guaranteed student and parent loan programs. Administrative cost allowance payments are the current statutorily-mandated means by which the performance of such functions is assured and elimination of such payments without the availability of an alternative source of funding will result in the curtailing or elimination of critical elements of these programs.

A flat rate guarantee fee will provide a sufficient funding source to assure that the vital functions currently funded by administrative cost allowance payments (preclaims assistance, status monitoring, collection assistance and monitoring lender and school participation) will continue to be performed.

If a flat rate guarantee fee is imposed and payment of administrative cost allowances is eliminated, the federal government will assure that there is equitable financing among guarantors. Guarantors would have an added incentive under this plan to protect against defaults by having an efficient program and an effective reserve. Finally, the federal commitment of funds to the guaranteed student and parent loan programs would be significantly reduced.

In conclusion, Mr. Chairman and members of the Subcommittee, I recognize that we face an important challenge in consideration of the reauthorization of the Higher Education Act. On behalf of USA Funds, I have recommended a plan which will adequately fund loan guarantors and will enable them to operate efficient and strong programs. USA Funds believes that its plan will reduce the complexity of guarantor financing while simultaneously building a stronger partnership between the federal government and guarantors. USA Funds also believes that its recommendations include important incentives for guarantors to reduce defaults in the guaranteed student and parent loan programs without reducing access.

Mr. FORD. Mr. Leone?

Mr. LEONE. Chairman Ford and members of the Subcommittee on Postsecondary Education, it is my pleasure to be here today and represent the State Higher Education Executive Officers Association. I have with me Dr. Larry Nutter from our guarantee agency.

I have a little different perspective in that I have the opportunity to serve not only as a head of a guarantee agency but also as the chief executive officer of a system of higher education, so I get to see how the loan programs impact on the students while they are progressing through the institution. We also have those students as alumni with debt burden, and we hear about that.

As Congress begins debate over the reauthorization of the Higher Education Act of 1965 and as priorities are set to assure the best direction of the Federal interest, we believe it is essential that the interests, needs, and priorities of the States be taken into careful consideration. The executive officers of the statewide higher education coordinating and governing boards represented by SHEEO empathize with the enormous difficulty of choosing among various important programs during times of fiscal restraint. However, this is a reality with which we are all familiar as we advise our own Governors and our own legislatures on higher education priorities.

You have asked me today for some views on the guarantee agency administration, and I would like to address the overall topic by briefly discussing some subtopics of advances, insurance premiums, reserves, reinsurance and administrative cost allowances.

First, on the advances. Federal advances have been made to guarantee agencies to strengthen their capital reserves and to assist with the payment of claims by lenders. It is our understanding that Federal advances are considered to be interest-free loans to guarantee agencies. Further, 34 Code of Federal Regulations, Part 682:403(5) reads as follows: That "The Secretary may require the guarantee agency to repay part or all of the advance when the Secretary finds that the funds advanced are no longer required for the guarantee agency to maintain an adequate reserve."

In making this finding, the Secretary considers a couple of things. First, the maturity and solvency of the reserve fund, and second, the agency's requirements for new loan guarantees based on its prior experience.

As the guarantee agencies become more firmly established financially, it is appropriate that more of the costs of the Guaranteed Student Loan Program be shared by these agencies. Generally, the Federal advances are important to new guarantee agencies, and you have heard that many times here this morning, and, of course, are less important as the agencies have some maturity and age.

The Oklahoma Guarantee Agency, as an example, has received advances of some $677,000 from the 1965 and 1976 Federal advances. But under the present program this agency can now return these advances without seriously threatening the solvency of the program.

I have heard some of the testimony here this morning, and in part of these funds there might need to be some legislation necessary, but in other parts the Secretary of Education now has the authority to request these returns and that can be done. As I said, it may have impact on the newer programs, and I am sure it would, and there certainly would have to be consideration given to that.

So, our recommendation, of course, is that the guarantee agencies through the Office of Education's direction return these Federal advances to the Federal Government within reasonable timeframes based on an independent determination, because many States can, and some States would need some time.

The second agency administration subtopic deals with insurance premiums. There is a fee, of course, charged by the guarantee agencies to lenders on each loan to insure the loan and to cover costs incurred by the guarantee agency administration of its loan insurance program. The lender may pass this charge on to the borrower. Again, although I am representing the SHEEO organization let me use Oklahoma as an example.

The Oklahoma Guarantee Agency charges the lender, who passes the charge on to the student, 1 percent of the principal balance of the disbursement computed for the time period of the date of disbursement through the anticipated date of graduation plus the grace period, six to nine months. This charge in our State, which averages approximately 2½ percent of the loan amount, is approximately one-half of what is allowable by current Federal legislation. And of course, we could go 1 percent for the life of the loan, from the date of disbursement through the full payment, but we haven't, it isn't necessary, and it isn't necessary in many loan agency cases.

So, it would be our recommendation based on our experience that we limit this to 3 percent of the loan amount. And further, that guarantee agencies should be authorized to charge a predetermined percent of the loan amount for insurance-fee computation. This is my opinion and my recommendation based on my experience in Oklahoma.

Then we move to the third subtopic of the guarantee agency administration dealing with reserves. Currently there is no regulations related to the amount of reserves that the guarantee agency may accumulate, and the only stipulation is that the reserves be spent only for the Guaranteed Student Loan Program. An adequate reserve balance is fundamental to the fiscal stability of a guarantee agency because a guarantee agency becomes at risk under the following circumstances: if the guarantee agency drops below 100 percent reinsurance, there is some risk; if the guarantee agency expenditures exceed the 1 percent administrative cost allowance, they are at risk; or if the guarantee agency does not have enough dollars available to meet the cash flow requirements.

And so what we are saying on reserves are that there is no reliable studies available on what level guarantee agency reserves should be, and it is recommended that an actuarial study be conducted to determine what the guarantee agency reserves should be. Only after the study has been completed and an adequate reserve amount established, can an accurate determination be made concerning guarantee agency reserves.

The fourth subtopic dealing with the reinsurance. According to the current Federal regulations, the supplemental agreement for reinsurance with the U.S. Department of Education specifies the rate of Federal reimbursement of payment defaults to guarantee agencies. You have heard this stated, and you know that if your default rate is between 0 and 5 percent, 100 percent coinsurance; drops down 6 to 9 percent, 90 percent; and then below 10 percent at 10 percent or below, you are at 80-percent coinsurance.

It seems logical and appropriate that those guarantee agencies with higher default rates should share a greater responsibility for payment of the default claim. The Oklahoma Guarantee Agency, as an example, for many years received only 80 percent of the coinsurance, 80 percent of the default claims paid, because we had only a basic agreement and did not have the supplemental agreement.

We did make some changes in the law, not to get the greater insurance to or to remove that 20-percent exposure, but because we needed to expand the opportunity for part-time students, out-of-State students and others, to participate in the program, others that are required by the supplemental agreement. Since that time we received 100-percent coinsurance because our default rate is low.

Our recommendation is that in order for us to have a reasonable sharing of the cost of default payments between the Federal Government and the State guarantee agencies, it is recommended that the current methodology for reinsurance be retained. But that, of course, is related to some of these other subtopics dealing with what level reserves should we have and insurance premiums, and then this fifth subtopic on administrative allowances.

Administrative cost allowances of up to 1 percent of the principal balance of loans guaranteed are used for administrative expenses for guarantee agencies. At this point I will probably take a little different approach than some of the others because I think this is a very important component of the administration of a Guaranteed Student Loan program. I think it is important because that is the resource that we have to do some things that really need to be, I think, strengthened such as preclaims assistance and compliance reviews.

The biggest, I think, concern and criticism of the loan programs revolve around defaults and the perception of the public about the high default rates and the people who are not wanting nor intending to pay loans back. I think one of the things that we can do and should do, and do it much better than we are, is to offer preclaims assistance and then have compliance reviews of our lenders and our schools. We are in process of doing that much more extensively, and I have a couple of recommendations when it comes to talking about compliance reviews. One of them I do not have in my testimony but I would like to add it.

The first recommendation deals with the administrative cost allowances being retained at the 1-percent level. But the second one follows because when a State guarantee agency doesn't have the resources to do the proper job of compliance reviews, then we are going to have lenders and schools that are participating that are not following the regulations and have very high default rates.

And that leads me to my second recommendation, and that is when a State guarantee agency goes out on a compliance review and either removes an institution from participation or restricts participation, then I think the U.S. Office of Education ought to stay with the State agency's decision and not allow that school or entity to go to a national guarantor because that defeats the purpose if they don't particpate and follow the regulations.

The same regulations apply for a State guarantee agency, and we restrict their participation. We report that restriction to the regional office of Education, then that should apply. No agency should be loaning money beyond the restriction that was placed on. And I think that is very important.

So we think the administrative cost allowance is important and should be retained providing that it is used properly, and that we use it for the cost of the program to enhance what we are doing with compliance reviews. And of course, preclaims assistance becomes critical because that will reduce your default rate. So what we need to concentrate on, one of the areas we need to concentrate on certainly is to lower that default rate, and we can do it and we have the legislation on the books to do it.

Let me conclude by saying that we are aware of the need to reduce the Federal deficit, and we are not suggesting that higher education should be exempt. However, we believe higher education programs in the reauthorization process, particularly the student assistance programs, are good investments for the future of our college students and thus for our Nation.

The fundamental national interest in assuring that all citizens have access to higher education is being realized through a variety of student financial assistance programs. Congress over a number of years has made important and wise decisions in order to make and help the Guaranteed Student Loan Program function effectively in a decentralized State-based program operating primarily on private loan capital. We suggest that radical changes to the Guaranteed Student Loan Program are not in the best interest of higher education.

We appreciate the opportunity to present these items for your consideration in this important committee. Thank you very much for your time and attention.

Mr. FORD. Thank you.

[The prepared statement of J.A. Leone follows:]

Prepared Statement of J.A. Leone, Chancellor, the Oklahoma State System of Higher Education and Chairman of the State Higher Education Executive Officers' Federal Relations Committee

Introduction

The State Higher Education Executive Officers (SHEEO) recognize as fundamental the national interest in assuring that all citizens have access to higher education appropriate to their needs and within their economic capacity, and the essential role that the federal government must play in achieving that goal. We join with the National Governors Association in asserting that there must also be a strong federal interest in the promotion and maintenance of the quality of higher education. At the same time, we recognize that the federal role in higher education is and should be a limited one, that the primary governmental responsibility for higher education rests with the States.

As the Congress begins its debate over the reauthorization of the Higher Education Act of 1965, and as priorities are set to assure the best direction of the federal interest, we believe it essential that the interests, needs, and priorities of the States be taken into careful consideration. The executive officers of the statewide higher education coordinating and governing boards represented by SHEEO empathize with the enormous difficulty of choosing among various important programs during times of fiscal constraint. However, this is a reality with which we are familiar as we advise our own governors and legislatures on higher education priorities.

There can be no question that the primary federal interest must continue to be assuring access to higher education for those persons who have the ability but not the means to benefit from a collegiate experience. This was the primary goal of the legislation twenty years ago, and it should continue to be so in the eighties and beyond. As a direct corollary, structuring the Pell Grant Program to assure its full funding and protect it from political vagaries must assume the highest priority. We support proposals to revise the funding mechanism of the Pell Grant Program to reflect its entitlement character, with adequate and realistic levels of student support and needs assessment to achieve its intended purposes.

The Guaranteed Student Loan Program (GSLP), as the other central element of federal student aid, must continue to be configured to ensure access to affordable loan capital for all students whose own resources are either inadequate or would be unduly stressed by shouldering the costs of postsecondary education. The GSLP is a cornerstone of our national commitment to preserve the complimentary concepts of choice and pluralism that characterize American higher education.

This is not to say that significant savings in the program are beyond reach. However, they are likely to accrue as a result of achieving stable low interest rates and the recognition, particularly among older students, of the risks inherent in incurring large debt burden, rather than through radical surgery upon a generally healthy program. We do not endorse any "quick fixes" to reconfigure the GSLP, and indeed we are convinced that sudden changes in the program may cause more harm than good.

I will address the overall topic of guarantee agency administration by briefly discussing the suggested subtopics of advances, insurance premiums, reserves, reinsurance, and administrative cost allowances. These are some of the financial areas guarantee agencies are required by law to manage within the overall structure of the Guaranteed Student Loan Program. Each of these areas has been in existence since the inception of the program some 20 years ago. The regulations may now need refinement and updating to reflect the changes that have occurred in state and federal capabilities and student needs.

Advances:

Federal advances have been made to guarantee agencies to strengthen their capital reserves and to assist with the payment of claims to lenders. It is our understanding that federal advances are considered to be interest-free loans to guarantee agencies. Further, 34 Code of Federal Regulations Part 682:403(5) is as follows:

> The Secretary may require the guarantee agency to repay part or all of the advance when the Secretary finds that the funds advanced are no longer required for the guarantee agency to maintain an adequate reserve. In making this finding, the Secretary considers—
>
> (i) The maturity and solvency of the reserve fund; and
> (ii) the agency's requirements for new loan guarantees, based on its prior experience.

As the guarantee agencies become more firmly established financially, it is appropriate that more of the costs of the Guaranteed Student Loan Program could be shared by these agencies. Generally, the Federal advances are extremely important to new guarantee agencies and of lesser importance to older guarantee agencies with stronger reserve fund balances. The Oklahoma Guarantee Agency has received $677,181.30 from the 1965 and 1976 Federal advances, but, under the present program, the Agency could now return the advances without seriously threatening the solvency of the program.

Recommendation:

Guarantee agencies should be encouraged to return federal advances to the federal government within a reasonable timeframe, based on an independent determination of the overall financial condition of the agency's program and needs.

Insurance Premiums:

34 Code of Federal Regulations, Part 682 defines insurance premium as a fee charged by guarantee agencies to lenders on each loan to insure loans and to cover costs incurred by the guarantee agency in the administration of its loan insurance program. The lender may pass this charge on to the borrower.

The Oklahoma Guarantee Agency charges the lenders, who pass this charge on to the students, 1% of the principal balance of the disbursement computed for the time period of **date of disbursement through the anticipated date of graduation plus the applicable 6- or 9-month grace period.** This charge (which averages approximately two and one-half percent of the loan amount) is approximately one-half of that allowable by current federal regulations which permit insurance premiums of up to one percent for the **life of the loan, from date of disbursement until date paid in full.**

Recommendation:

It is recommended that the total insurance premium charged to student borrowers should be limited to 3 percent of the loan amount. Further, guarantee agencies should be authorized to charge a predetermined percent of loan amount for insurance fee computation.

Reserves:

Currently there are no regulations relating to the amount of reserves a guarantee agency may accumulate. The only stipulation is that the reserves be spent only for the Guaranteed Student Loan Program.

An adequate reserve fund balance is fundamental to the fiscal stability of a guarantee agency. Guarantee agencies become "at risk" under the following circumstances:

1. If the guarantee agency drops below 100 percent reinsurance.
2. If the guarantee agency expenditures exceed the 1 percent administrative cost allowance.
3. If the guarantee agency does not have enough dollars available to meet the cash flow requirements. Depending on the volume, a substantial amount of money is involved in the payment of default claims each month before receiving the reinsurance payment from the U.S. Department of Education.

Recommendation:

In that there are no reliable studies available on what level guarantee agency reserves should be, it is recommended that an actuarial study be conducted to determine what the guarantee agency reserves should be. Only after an actuarial study has been completed and an adequate reserve amount established can accurate determinations be made concerning guarantee agency reserves.

Reinsurance:

According to current Federal regulations, the Supplemental Agreement for Reinsurance with the U.S. Department of Education specifies the rate of federal reimbursement of payment of defaults to guarantee agencies. The annual rate, calculated on the percentage of defaults based on the volume of loans in repayment at the end of the previous federal fiscal year, is as follows:

(1) 100 percent on 0 to 5 percent.
(2) 90 percent on 6 to 9 percent.
(3) 80 percent on 10 percent or more.

It seems logical and appropriate that those guarantee agencies with higher default rates should share a greater responsibility for payment of the default claim. The Oklahoma Guarantee Agency received only 80% reinsurance on default claims paid through the Basic Agreement until April 1984. Since the signing of the Supplemental Agreement, the Oklahoma Guarantee Agency has been receiving 100% reinsurance for default claims submitted since April 1984.

Recommendation:

In order to maintain a reasonable sharing of the cost of default payment between the federal government and state guarantee agencies, it is recommended that the current methodology for reinsurance be retained.

Administrative Allowance:

Administrative Cost Allowances (ACA) of up to 1 percent of the principal balance of loans guaranteed are used for administrative expenses for guarantee agencies. Some portion of these funds is essential to the effective operation of a guarantee agency, as is the case for reinsurance. No reliable data is available to determine what an adequate amount of administrative cost allowance would be. It seems certain, however, that part of administrative cost allowance funds should be used in activities designed to **prevent defaults.** Preclaims assistance and compliance reviews are required activities of guarantee agencies; however, the level of these activities varies tremendously from one guarantee agency to another.

The Oklahoma Guarantee Agency received 1/2 of 1% of the principal balance of loans guaranteed through the Basic Agreement through September 30, 1983. With the signing of the Supplemental Agreement, the Oklahoma Guarantee Agency is now receiving 1% of the principal balance of loans guaranteed. The revenue received from the additional 1/2 of 1% of Administrative Cost Allowance has been used for program enhancements, including preclaims assistance, compliance reviews, and increased lender services. A mandatory preclaims assistance program was required of the lenders. It is difficult to document, but we are of the opinion that the mandatory preclaims assistance required of the lenders has prevented a significant number of defaults from occurring in Oklahoma.

The Oklahoma Guarantee Agency has also implemented a compliance and technical assistance review program for Oklahoma schools and lenders. We believe these review programs will be beneficial in reducing the default rate as well as the overall cost of the program to the Federal government through the prevention of fraud and abuse. Without Administrative Cost Allowance, the Guarantee Agency could not afford these preclaims assistance and compliance and technical assistance programs.

Recommendation:

It is recommended that administrative cost allowances be retained at the same level of 1 percent of the loan volume guaranteed annually. These allowances are necessary for guarantee agencies to effectively administer a Guaranteed Student Loan Program which includes programs designed specifically to prevent defaults and to avoid program fraud and abuse.

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ADDENDUM TO WRITTEN TESTIMONY

As Chancellor of the State System of Higher Education and as the Chief Executive Officer of the state agency responsible for administering the State Guarantee Agency, I have authorized a considerable commitment in personnel time and agency expenditures to administer compliance reviews of educational and lending institutions participating in the Guaranteed Student Loan Program in Oklahoma. Based on the policies and procedures manual approved by the United States Department of Education, my staff routinely conduct compliance reviews of participating institutions. We may conduct a compliance review of an educational institution, find it to be in violation of federal regulations, and recommend **limitation, suspension,** or **termination** of their Guaranteed Student Loan participation. These efforts do no good if the educational institution goes to another guarantee agency and continues its level of participation as if no violations were ever found or reported. Therefore, I make a recommendation not as a SHEEO representative, but as the Chief Executive Officer responsible for the administration of the Guarantee Agency in Oklahoma.

Recommendation:

It is recommended that the United States Department of Education accept the responsibility (1) to inform all Guarantee Agencies, particularly national guarantors, of limitations, suspensions, or

terminations imposed by guarantee agencies and (2) to monitor guarantee agency participation to ensure that the restrictions are properly enforced and accepted by all guarantee agencies. Otherwise, the required guarantee agency efforts to ensure compliance with federal and state regulations, toward the end of preventing defaults as well as fraud and abuse, will not be meaningful to the overall Guaranteed Student Loan Program.

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Conclusion:

We are aware of the need to reduce the federal deficit and are not suggesting that higher education should be exempt; however, we believe the higher education programs in the Reauthorization proposals, particularly the student financial assistance programs, are good investments for the future of our college students and, thus, for the nation. The fundamental national interest in assuring that all citizens have access to higher education is being realized through a variety of student financial assistance programs. Congress, over a number of years, has made important and wise decisions in order to make and help the Guaranteed Student Loan Program function effectively as a decentralized state-based program, operating primarily on private loan capital. We suggest that radical changes to the Guaranteed Student Loan Program are not in the best interest of higher education, and we appreciate the opportunity to present these items for the consideration of this important committee.

Mr. **Ford**. Ms. Ozer?

Ms. **Ozer**. Good morning. My name is Kathy Ozer. I am the legislative director of the United States Student Association representing students attending over 400 postsecondary institutions across the country. USSA wishes to thank the Chair and the subcommittee for inviting us to present our views on a very important aspect of the Guaranteed Student Loan Program, the fees, both origination fees and insurance premiums that students as the consumers of student loans must pay. USSA testified before the National Commission on Student Financial Assistance when they studied these issues following the 1980 reauthorization.

USSA represents students at all types of postsecondary institutions. We are concerned about continued access for students regardless of race, sex, economic background, or disability. The issues that are being discussed and debated during the reauthorization process are critical to the future of all students whether currently in high school or postsecondary education. We are very pleased that the subcommittee is closely examining all aspects of the Higher Education Act and is hearing directly from students whether here in the District of Columbia or at the regional hearings.

USSA knows that student financial aid is complex. It is a complicated system for students, parents, financial aid administrators, and policymakers looking to improve the existing programs. But beneath the complexity which might mask the actual fees or add to the confusion level, there are real costs that affect every student who receives a Guaranteed Student Loan. The reasons for the origination fee and the insurance premium do not appear justified to us today in 1985. Not only do we question the fees themselves, but we feel that the names of the fees are, in fact, deceptive and confusing to students.

Why an insurance premium? Are students providing the funds to protect against their assumed default levels? Are these funds being held in reserve for that purpose? Does the premium go up or down based on the default rates? Information on the insurance premium issue collected during the deliberations of the National Commission highlighted the inconsistencies of a program which imposes a heavy burden on students, enables some State guarantee agencies, as we have seen today, to accumulate large reserves while the Federal Government is, in fact, paying close to 100-percent reimbursement on defaults.

The current maximum insurance premium, which varies by State, is based on a somewhat arbitrary formula which is set at a maximum of 1 percent for each year of the loan plus 1 percent to cover the grace period, which is in addition to the origination fee of 5 percent. Both of these fees are charged to a student who is already carrying a heavy debt burden to provide the funds to guarantee a "Guaranteed Student Loan." This maximum burden of 10 percent of the total loan amount is at a time when students have lost purchasing power in both loans and grants and there is an increasing dependence on the loan dollar for students from all economic backgrounds.

One question we had is whether this loss of 10 percent on loan dollars is, in fact, being considered when a student's remaining need is being calculated on campus.

The "temporary" origination fee imposed as part of the 1981 Omnibus Reconciliation Act is becoming all too permanent in the minds of at least the Office of Management and Budget. We are aware that the Grace Commission and some earlier administration proposals have recommended a doubling of this fee to 10 percent. The 5-percent fee imposed on every student for every loan was seen as a way to reduce the costs of the GSL program at a time of high interest rates and very high loan volume. Neither of these conditions exist today, yet students have paid over $1.6 billion in origination fees during the past 4 years. The impact on students has been a reduction in the amount of money to pay for increasing educational and living costs each semester and to increase the debt burden since the lost cash each semester must be repaid with interest.

I know from our monitoring of the budget process, and particularly the conference going on right now, that there was the topic of user fees for federally needs tested programs came up. Students have been paying fees to apply, use and insure themselves for the GSL program. The current debate over loan indebtedness and its implications for the future are a major concern to us. We are not only concerned about the levels of debt incurred but the fact that students are currently paying interest on money that they never received.

USSA recommended in our overall recommendations submitted to the subcommittee the grace period of 9 months following enrollment be reinstated. This additional 3-month period before having to start repayment can make a big difference in the ability to get a job and relocate.

To some Members of Congress, in 1981, it may have seemed more politically palatable to impose a fee which most students are totally unaware of until they receive their GSL check. An expected maximum GSL of $2,500 is, in fact, a check for $2,300 in most States when the origination fee of 5 percent is compounded by the insurance premium. A first-year student obtaining a loan from a Maryland bank receives a check sometime during their first semester for $2,250. Maryland takes out the full insurance premium. I am glad that students, from the other person testifying, in Oklahoma only pay half of that amount. But it doesn't appear quite fair to me to penalize students based on where their loan is actually processed, not necessarily where they are attending school or a variation between the two.

That $200 or $250 or $150 based on the State is money for books lab fees or other basic living expenses which had been expected but is already deducted from the GSL check. Unmet needs of many students are exacerbated by a fee whose real impact does not seem to reach the top of the agenda when opposing proposed changes in student aid. It is a very direct cost which we hear about when the students call us and ask us why they are in fact receiving less funds.

This year, in addition, we have been hearing a lot about multiple disbursements both during the reauthorization hearings and the budget reconciliation or the budget debates. USSA is very concerned about the timing of the origination fee if the GSL is being disbursed in two payments. We have heard some discussion of the entire origination fee coming out of the first semester which would reduce a student's loan payment by 10 percent for the origination fee and a variable amount for the insurance premium. The loss of these funds, whatever the level is, in the first semester of cash flow will be devastating to many students. First semester costs tend to be higher and other delays in student aid programs, which are all too frequent, would disproportionately impact on those students most dependent on these programs to remain enrolled in postsecondary education.

Our recommendation for reauthorization is clearly the elimination of the origination fee. Yet, if there are changes relating to multiple disbursements prior to reauthorization, USSA submits to the subcommittee that the origination fee should come out of the second semester payment or be split equally between the two semesters.

USSA appreciates the opportunity to present the student perspective on two fees which increase student demand for loan dollars and increase their debt simultaneously. There is currently a premium being imposed on students which is not providing insurance to guarantee agencies, yet is allowing a significant number of State agencies to collect reserves which in some cases could be exceeding operating expenses.

This accumulation of dollars is at a time when the student aid dollar has declined by over 20 percent on campuses since 1980 and financial barriers, both the access to leans and grants and the future of prohibitive debt burdens, are creating very real barriers to students in attending a postsecondary institution of their choice.

USSA urges the subcommittee to take a close look at the fees that students are paying today in the context of the overall GSL Program and the overall reauthorization. We look forward to working with the subcommittee during the entire process, and appreciate this opportunity to present our views today. Thank you.

[Prepared statement of Katherine Ozer follows:]

PREPARED STATEMENT OF KATHERINE OZER, LEGISLATIVE DIRECTOR, UNITED STATES STUDENT ASSOCIATION

Good Morning, my name is Kathy Ozer. I am the Legislative Director of the United States Student Association (USSA) representing students attending over 400 postsecondary institutions across the country. USSA wishes to thank the Chair for inviting us to present our views on a very important aspect of the Guaranteed Student Loan Program - the fees - both origination fees and insurance premiums that students as the consumers of student loans must pay. USSA testified before the National Commission on Student Financial Assistance when they studied these issues following the 1980 Reauthorization.

USSA represents students at all types of postsecondary institutions. We are concerned about continued access for students regardless of race, sex, economic background, or disability. The issues that are being discussed and debated during the Reauthorization process are critical to the future of all students - whether currently in high school or postsecondary education. We are very pleased that the Subcommittee is closely examining all aspects of the Higher Education Act and is hearing directly from students whether here in D.C. or at the regional hearings.

USSA knows that student financial aid is complex. It is a complicated system for students, parents, financial aid administrators, and policymakers looking to improve the existing programs. But - beneath the complexity which might mask the actual fees or add to the confusion level, there are real costs that affect every student who receives a Guaranteed Student Loan. The reasons for the origination fee and the insurance premium do not appear justified to us today in 1985. Not only do we question the fees themselves, but we feel that the names of the fees are in fact deceptive and confusing. Why an Insurance Premium? Are students providing the funds to protect against their assumed default levels? Are these funds being held in reserve for that purpose? Does the premium go up or down based on the default rates? Information on the insurance premium issue collected during the deliberations of the National Commission on Student Financial Assistance highlighted the inconsistencies of a program which imposes a heavy burden on students, enables state guaranty agencies to accumulate large reserves while the Federal Government is in fact paying close to a 100 percent reimbursement on defaults.

The current maximum insurance premium which varies by state is based on a somewhat arbitrary formula which is set at 1% for each year of the loan plus 1% to cover the grace period is in addition to the origination fee of 5% -- both fees are charged to a student who is already carrying a heavy debt burden to provide the funds to guarantee a "Guaranteed Student Loan." This maximum burden of 10 percent of the total loan amount is at a time when students have lost purchasing power in both loans and grants and there is an increasing dependence on the loan dollar for students from all economic backgrounds.

The "temporary" origination fee imposed as part of the 1981 Omnibus Reconciliation Act is becoming all too "permanent" in the minds of the Office of Management and

Budget. We are aware that the Grace Commission and some earlier administration proposals have recommended a doubling of the fee to 10%. The 5% fee imposed on every student for every loan was seen as a way to reduce the costs of the GSL program at a time of high interest rates and very high loan volume. Neither of these conditions exist today, yet students have paid over $1.6 Billion in origination fees during the past four years. The impact on students has been a reduction in the amount of money to pay for increasing educational and living costs each semester and to increase the debt burden since the lost cash each semester must be repaid with interest.

I know from our monitoring of the Budget process that the subject of user fees for federally needs tested programs is looked at with apprehension. Students have been paying fees to apply, use, and insure themselves for a program that is a "Guaranteed" Student Loan. The current debate over loan indebtedness and its implications for the future are a major concern to us. We are not only concerned about the levels of debt incurred but the fact that students are currently paying interest on money that they never received. USSA recommended in our overall recommendations submitted to the Subcommittee that the grace period of 9 months following enrollment be reinstated. This additional 3 month period before having to start repayment can make a big difference in the ability to get a job and relocate.

To some members of Congress in 1981, it may have seemed more politically palatable to impose a fee which most students are totally unaware of until they receive their

GSL check. An expected maximum GSL of $2500 is in fact a check for $2300 in most states when the origination fee of 5% is compounded by the insurance premium. That $200 is money for books, lab fees, or other basic living expenses which had been expected but is already deducted from the GSL check. Unmet needs of many students are exacerbated by a fee whose real impact does not seem to reach the top of the agenda when opposing proposed changes in student aid. It is a very direct cost which is borne by every GSL borrower every year.

This year we have been hearing a lot about multiple disbursements both in the Reauthorization hearings and the budget debates. USSA is very concerned about the timing of the origination fee if the GSL is being disbursed in two payments. We have heard some discussion of the entire origination fee coming out of the first semester which would reduce a students' loan payment by 10% for the origination fee and a minimum of 2% for the insurance premium. The loss of at least $150 the first semester in cash flow would be devastating to many students. First semester costs tend to be higher and other delays in student aid programs which are all too frequent would disproportionately impact on those students most dependent on these programs to remain enrolled in postsecondary education.

Our recommendation for Reauthorization is clearly the elimination of the fee, yet if there are changes relating to multiple disbursements prior to Reauthorization, USSA submits to the Subcommittee that the origination fee should come out of the second semester payment or be split equally between the two semesters.

USSA appreciates the opportunity to present the student perspective on two fees which increase student demand for loan dollars and increase their debt simultaneously. There is currently a "premium" being imposed on students which is not providing insurance to guaranty agencies yet is allowing a significant number of state agencies to collect reserves which far exceed operating expenses. This accumulation of dollars is at a time when the student aid dollar has declined by over 20 percent since 1980 and financial barriers - both the access to loans and grants and the future of prohibitive debt burdens are creating very real barriers to students in attending a postsecondary institution of their choice.

USSA urges the Subcommittee to take a close look at the fees that students are paying today in the context of the overall GSL program. USSA looks forward to working with the Subcomittee during the Reauthorization of the Higher Education Act and appreciates the opportunity to present our views today. Thank you.

Mr. FORD. Thank you very much.

I remember hearing from your predecessors when we were adding on some of these costs. And at one time there was so much concern, in the late 1970's, that we put sort of a truth-in-lending requirement in so that students didn't discover these things after they were into the program. It compelled institutions that were making loans to disclose these things up front.

The biggest bite that we take out of the student, you will notice that a lot of people have recommended in our hearings it be taken out, is the origination fee. That was intended to be a one-shot thing to help Stockman balance the budget in 1981 and it has taken on a life of its own because it didn't have a termination date. The termination date is this statute.

This committee never looked at that. There were no hearings on it. We had no idea what the impact would be. That was written by the Office of Management and Budget, and we didn't really have anything we could do about it. There never was and has not been, at least to this member, a justification put forth.

Five percent; why not ten? But why that kind of a charge in the first place? Is that the right place to impact on the cost to the program? And in the short term it is great. We could solve our short-term problems and show a big saving this year by simply increasing it to 10 percent. That means that all the students who originated a loan this year would lose 10 percent off the top. And 10 percent discount means a lot more than 10 percent interest.

We hope that isn't thrown at us in some fashion again. But I don't think that the committee has ever had any conceptual sympathy with this kind of an approach as a way to capture money and reduce the cost of the program. That is why the committee is spending more time than it ever has before. Mr. Coleman and I were just talking about it. In the 1970's we were still trying to get States into the ball game.

I was just glancing here at a State agency survey that NCHELP has put together. And you look at the year that participation had begun, there is a small number that have been in the program for 20 years, a much larger number that have been in for 15 to 20 years, a smaller number 5 to 15 years, but 11 jurisdictions that have only been in since 1981. What this proves on the first hand is that Congressman O'Hara and his committee were right in what they did in 1976 to get the States into the game, but it took this many years for it to really have that effect. So that now, as you have heard people say, every State has some kind of guarantee agency.

There are different kinds of guarantee agencies. In part, they grew up because of reluctances of some States to participate. There are more separate State agencies and private nonprofit agencies then there are straight State educational department-operated agencies or State postsecondary coordinating board-operated agencies. Some States had more difficulty it seems than others in coming into it.

So none of these things that you are talking about really were put together with the idea of a way to tax students, but a way to get some idea of how you would finance it. It was a gamble in the 1970's, and one that appears to have paid off. Now we don't want to be in the position of saying to these people you have been doing so well that we are now going to make it more difficult for you to do the job. But you can see that they themselves are suggesting to us ways in which we can make the program more efficient without taking money from students. No one in any of the testimony we have had on guaranteed student loans has advanced any kind of a proposal to us that would make changes that would have the effect of reducing Government cost in the program at the expense of students. I can't think of any that have suggested it.

So I hope to report to them at this point we are trying to figure out how to do some things, but I haven't detected anybody who is running on the students to try to do it.

Ms. Ozer. I appreciate that.

Mr. Ford. Thank you very much.

Mr. Coleman?

Mr. Coleman. Just briefly, Mr. Chairman.

Just wanting to know from Dr. Leone if I was confused or if his testimony is confusing. On page 3, you discuss insurance premiums, you say that they amount to 1 percent of the principal balance. Then later in your testimony you say that your premium is 2½ percent or one-half of what is allowable. How are those two statements consistent?

Mr. Leone. I simply gave you an example of what the average is in our State agency. It would vary State by State. It would be quite different.

It is possible that a guarantee agency could charge the 1 percent during the 4 years, say, of the baccalaureate program, during the grace period and during the 10 years if they were in a 10-year repayment, so that could become very high. I thought you might be interested in seeing what it actually is in our guarantee agency in Oklahoma.

Mr. Coleman. Walk me through it I guess. What would be the maximum amount that an institution could charge under the insurance premium?

Mr. Leone. Right now?

Mr. Coleman. Right.

Mr. Leone. One percent.

Mr. Coleman. For four years.

Mr. Leone. For the balance for the 4-year grace period and through the repayment. So it can become pretty extensive. It is on the unpaid balance, so it doesn't calculate out, you know, that full percentage, but it could become pretty high if it is a 10-year loan repayment. So it could be they could be paying almost over 15 years.

Mr. Coleman. Is it a one-time charge to the student?

Mr. Leone. One percent per year, yes, on the unpaid balance.

Mr. Ford. But how do you get the figure of 2½ percent in Oklahoma? You are figuring 5 percent for in-school plus the grace period, or 5 percent collected 1 percent each year and you are saying you get 2½ percent for that whole 5 years? Is that what you are saying?

Mr. Leone. Are we talking about reinsurance, or are we—insurance premium. OK, all right, when you mention that 5 percent, our 2½ percent is simply what the average is. The charge that averages approximately 2½ percent for Oklahoma's guarantee agency, and that is based on the entire balance, whatever the balance is on the loan, for the life of the loan for the students that we have loans with.

Mr. NICHOLSON. Excuse me. Mr. Coleman, I think I can explain it. Oklahoma I believe charges a fee in very much the same manner as most guarantee agencies do. It is 1 percent times the number of years in school plus the grace period. So, if a freshman going to a 4-year school is involved, we are talking about 4½ to 5 percent. If it is a 1-year program, it is going to be 1½ percent. You average that all together in the State of Oklahoma, and it is true for most States, the guarantee fees in the State average about 2½ percent—2 to 2½ percent.

Mr. FORD. And Oklahoma is one of the States that does not charge beyond the grace period; is that right?

Mr. LEONE. That is right.

Mr. FORD. You don't charge the insurance premium during repayment?

Mr. LEONE. That is right.

Ms. OZER. Whereas, for a student who took out a loan in Maryland for starting school this past year, instead of the $2,500 amount the payment was actually $2,250, which means one twenty-fifth of that was for the insurance premium and one twenty-fifth of that was for the origination fee. And that is, in fact, the 5 percent amount that has been factored in there—4.5 percent.

Mr. COLEMAN. OK. I think we are all confused enough. I understand now.

Ms. OZER. So it could be a lot of money. It is a lot of money.

Mr. COLEMAN. I understand now. You have 4-year schools, and 1 year's, 2 years', and so forth.

Mr. LEONE. That happens with 2 years', 1 year, 6 months' programs.

Mr. COLEMAN. That is the real difference.

Mr. FORD. That happens in any State that charges the maximum for the whole life of the time, which unfortunately a majority of them do. But Maryland is one of the States that charges 1 percent during all of the years in school plus the grace period plus loan life. No, it is only the first 5 years of the loan life.

Ms. OZER. No; it is 5 years, yes.

Mr. FORD. Five years of the loan life.

Mr. COLEMAN. One final question because we have a vote on. Dr. Leone, you stated that if a state agency conducting a compliance review and they found an institution that they needed to eliminate or restrict, that they should not be able to opt out and go to a national guarantor. Right now what standard does the Department have for you to give notice to an institution?

Mr. LEONE. Congressman Coleman, I think one of the ways that we can control the default rate is through very well-structured, systematic compliance reviews of schools and lending institutions, and we do that. And when we find a school that is in violation of the regulations, that would be our policy and procedure manuals and they are based on the Federal regulation, we have several choices there of what we can do with them depending on how severe the violations are. But in a case recently we restricted their participation to 60 percent of the previous year's level. They have appeal procedures, which are built into the policies. And they appealed, and we still upheld the decision of the compliance review team. So they can't go through us except at that 60 percent level in that case, using that as an example. But they can go elsewhere.

We send our decisions now to the Office of Education through the regional office as directed. What I would like to see done is that if the violation is there and evident and is upheld, that it, in fact, restrict the participation in the Guaranteed Student Loan Program. Because we are all trying to do the same thing, and that is to make sure they follow good procedures and practices as set out in the regulations if they are going to be a participant. And I think the Office of Education needs to support the guarantee agency decisions on that. And if they will, then I think we will find much better administration at the school level or at the lender level of the Guaranteed Loan Program. I think they can. I think they have not.

Mr. **Coleman**. Mr. Nicholson, do you want to comment on that?

Mr. **Nicholson**. Thank you, Mr. Coleman. The Department of Education does have responsibility for determining which institutions are eligible to receive GSL loans. I would agree that if the Department of Education decided that a given school was no longer qualified, then no guarantor would want to or could provide loans for that school.

There is a step in between, though. I think it is a Department action, not a State guarantee agency action. U.S. aid, funds has been participating in this program for 20 years. We guarantee loans in every State. We are not certain that we want to see our hands tied from operating in any given State or any given school where the Department, whose responsibility it is, hasn't established that the school is not qualified but a State has. We would want to look at that on our own.

We do, also, have a staff of people who go around the country doing audits of lenders and schools. That so long as it is qualified under the Federal program by the Department we would want the right to determine whether or not a given student going to that school qualified for a loan.

Mr. **Coleman**. Do you disagree with Dr. Leone's premise as to why we have compliance review and why they have the right to limit, and if it is appealed and determined on a national level that they back them up? Is that the intent of that procedure?

Mr. **Nicholson**. I believe, although we haven't spoken about this, I believe that Dr. Leone and I would be in agreement that the Department needs to take the initiative to follow up on the reviews that the States conduct to establish whether or not a given institution is qualifying. The Department hasn't done that.

Mr. **Coleman**. I see.

Mr. **Nicholson**. Essentially the Department maintains a list, and it is a fairly exhaustive list and it doesn't remove schools.

Mr. **Coleman**. So your feeling is that if such a decision was made by the State guarantor that the Department would then have to make a decision based upon that information and go back, too, and rule ineligible that institution, not because of the actions of the State guarantor?

Mr. **Nicholson**. Yes, sir.

Mr. **Coleman**. Is that basically——

Mr. **Leone**. Congressman Coleman, we have all the authority we need in our State to restrict their participation, and we do.

Mr. **Coleman**. Right, you are looking at it from a national perspective.

Mr. **Leone**. That is right. And then as we send it on to the Office of Education, my point is that if they are in violation of the policy and procedures that we operate under, which are the same that everybody else operates under, then I think review of that would support our decision—should support our decision, and would help us I think cut down on the default rates. Because if they are not in compliance, what we have found, the schools that we need to restrict have very high default rates. Very high default rates.

Mr. **Ford**. Well, what both of you have said is that the present law contemplates that the Department would disqualify a lender or an institution for the reasons that are anticipated in the statute. But I think what you are saying is that the Department doesn't do it. What happens when you send them your packet of papers and say we have disqualified this particular institution in a limited way? In this instance you gave us you said we are going to limit their loan origination for that institution to 60 percent of the previous year without going into the reasons for that decision. And your appeal process upheld it. What did the Department do when you sent them that?

Mr. **Leone**. We sent it on to the regional Office of Education, and that is our direction. It is my understanding they put them on a list, and nothing has happened to my knowledge.

Mr. **Ford**. Is it just their practice to ignore that?

Mr. **Nicholson**. I believe that is generally true.

Mr. **Ford**. Well, then maybe we don't need a statutory change, we need to talk with the Secretary. Mr. Coleman and I will try to get together on a request that they give us some explanation of why they are functioning in this way. I would be reluctant to try to statutorily create a barrier when you look across the country and you realize that in many parts of the country if it were not for these multi-State and national organizations we would be in very bad shape because they came in to fill a vacuum at a time when the States were very slow or reluctant to get into it, and the pattern of the State growth has been fairly uneven. Maybe we can get some satisfaction. We will pursue it, Dr. Leone, on what their policy is—what they perceive their policy to be and what they expect to do.

Mr. **Leone**. We would appreciate that. We would be happy to help in any way.

Mr. **Ford**. Thank you very much. We have a live quorum now with a vote following, so the committee will adjourn.

[Additional material submitted for the record follows:]

June 27, 1985

Representative William D. Ford, Chairman
Subcommitee on Postsecondary Education
House Committee on Education and Labor
320 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the statement of the American Student Dental Association concerning the Guaranteed Student Loan Program. We respectfully request that this be made part of the official record on the hearings, and that a copy be sent to us at the following address:

American Student Dental Association
Suite 840
211 East Chicago Avenue
Chicago, Illinois 60611

Thank you.

Respectfully yours,

Craig M. Alexander
American Student Dental Association
Representative on Legislation

PREPARED STATEMENT OF THE AMERICAN STUDENT DENTAL ASSOCIATION

Dear Mr. Chairman and members of the Subcommittee:

The American Student Dental Association (ASDA) represents over 17,000 dental students from all 60 United States dental schools. We welcome the opportunity to submit our views on the Reauthorization of the Higher Education Act, specifically the Guaranteed Student Loan Program (GSLP). We recommend that the GSL borrowing limit for graduate and professional students be increased to $8,000 a year, with a combined undergraduate and graduate borrowing limit of $40,000. This maximum would not include a subcap for graduate borrowing. We also recommend that the origination and insurance fees be eliminated, and further urge that loan consolidation and extended repayment period provisions for highly indebted borrowers be restored.

In 1983-84, the yearly cost of attending dental school, exclusive of living expenses, averaged nearly $10,000 for in-state residents, and over $15,000 for students attending private dental schools. Last year, 45 percent of all dental school graduates were from private schools. Professional students currently may borrow $5,000 per year under the GSL program; many students must rely on high-interest market-rate loans such as HEAL to satisfy the balance. Indeed, in 1984, the average dental school graduate owed $35,000, $10,000 of which was for high interest market rate loans. If the GSL borrowing limit for professional students is not increased, the ever-increasing cost of education will create a much larger high-interest debt for these students. Another result will be increased difficulty for students from low- and middle-income families to gain access to a professional education. These results would be most undesirable.

To help remedy this situation, we recommend that GSL borrowing limits for graduate and professional students be increased to $8,000 a year, with a $40,000 maximimum limit for combined undergraduate and graduate GSLs. ASDA does not support the $25,000 subcap recommended by the American Council on Education. Eliminating this subcap would enable an undergraduate student who anticipates a graduate or professional education to borrow less as an undergraduate, reserving up to $8,000 per year for graduate or professional studies. Imposing a $25,000 subcap would create an effective professional student borrowing limit of $6,250 per year. This would counteract the effects of increasing the borrowing limit to $8,000 per year for graduate and professional students.

Since 1981, a five percent origination fee has been deducted from the proceeds of each GSL at the time of disbursement. This origination fee was included in the 1981 Omnibus Reconciliation Act, and was intended as a temporary measure to decrease the deficit. This decision was not reviewed by any educational committee. The unfair effect of this fee is to increase the cost of the loan to the student over the life of the loan. Furthermore, the insurance fee charged by some states is of questionable validity. The federal government has reimbursed state agencies for nearly 100% of loans in default. The need for both of these fees should be reviewed closely, and these fees should be eliminated if possible.

To help dental and other professional students with their indebtedness, loan consolidation and extended repayment periods are essential. The beneficial effect of this program would be to decrease even further the already low default rate for graduate and professional loans. While the specific default rate for dental graduates under the GSL Program is unavailable, we do know that the default rate for all health professionals under the HEAL Program is slightly above five percent, and the default rate for dental graduates under the Health Professions Student Loan Program is under five percent. The main reason for the existing default rate is the inability of recent graduates to meet the repayment terms in the early years of practice. A loan consolidation and extended repayment plan would help dental graduates meet their loan obligations.

In conclusion, an increase in the GSLP borrowing limit for graduate and professional students, along with the elimination of origination and insurance fees and the restoration of loan consolidation and extended repayment programs, are both needed and beneficial. The American Student Dental Association thanks you for your consideration.

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American
Dental
Association

1111 14th Street, N.W.
Suite 1200
Washington, D.C. 20005
(202) 898-2400

July 2, 1985

The Honorable William Ford
Chairman, Subcommittee on Postsecondary Education
Committee on Education and Labor
320 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ford:

The American Dental Association appreciates the opportunity to provide comments and recommendations on what we believe are important provisions that should be included in the reauthorization of the Higher Education Act. Continuation of student financial aid is vital for the dental profession to be able to attract qualified men and women dedicated to improving the dental health of the nation. Our position is prompted by the high cost of dental education, the impact of this cost on graduate indebtedness and the changing socio-economic profile of dental students.

The cost of graduate and professional education has increased dramatically in recent years. Nowhere is this trend more evident than in dental schools, where the average tuition has risen more than 250 percent in the past decade, partially the result of the loss of federal assistance programs. Today, the average first year cost to the dental student, exclusive of living expenses, is over $10,000. The four year costs can easily exceed $40,000 and is as high as $77,000 at some institutions.

An immediate consequence of this high cost of attending dental school is the escalating debt burden of recent graduates. Current data indicates that a sizeable majority of dental students are forced to rely on loans to finance their education. In 1978, graduating dental students reported total educational debts averaging $12,700. By 1984 this amount had risen to $32,000. It is not unusual for students at private schools to incur debt exceeding $50,000. Equally disturbing is the sharp increase in the percentage of students who have exhausted available loans under the GSL and NDSL programs and must turn to high interest, market rate loans. In 1979, 5.8 percent of senior dental students reported borrowing these "loans of last resort." The figure has since reached 25.6 percent for 1984 dental graduates.

There is a legitimate concern, we believe, that these highly indebted graduates will not have the financial ability to repay loans of this magnitude during the early years of dental practice. A recent ADA Survey of Dental Practice indicates that a student who graduated in 1981 had a median net income of $27,000 during the first year of practice. With the additional cost burden of establishing a practice, in this case $90-100,000 it is possible that graduates could anticipate several years of practice with virtually no discretionary income after taxes and loan repayment.

A second consequence of this rapidly increasing cost of education is the changing socio-economic profile of the dental student body. In 1978, 37 percent of senior dental students were from families with annual incomes below $20,000. By 1984 this figure had decreased to 16 percent. Conversely, the same study reflects a significant increase in the number of students from higher income families. The percentage of senior students from families with incomes greater than $40,000 was 22 percent in 1978. By 1984 this level had more than doubled, to 48 percent. If the current trend continues, a dental degree may be affordable only by the rich. Some of the country's academically gifted students could be shut out of the opportunity to become dentists.

Reauthorization of the Higher Education Act is essential for the education of future dental health practitioners. Provisions to address the debt problem faced by graduate and professional students should be included. An increase in the GSL annual borrowing limit to $8,000 and the cumulative limit to at least $40,000 for both graduate and undergraduate borrowing would lessen the tremendous debt burden facing dental graduates. Students would not have to rely so heavily on high interest loans and could structure a more manageable debt.

Restoration of loan consolidation programs is another way to help highly indebted graduates. Loan consolidation enables the borrower to bring together a variety of loans so that realistic repayment terms can be created. Such a program would prove very beneficial to students who have incurred large debt burdens and have utilized a variety of loan sources. Finally, extension of the repayment period for those with large student loans would ease the debt burden and help decrease the already low default rate of professional students.

The Association urges Congress to act positively in addressing these issues to ensure: (1) that individuals without adequate financial resources are afforded an opportunity to pursue a career in the health professions, and (2) that students are not forced to incur unmanageable debt in order to obtain a health professions education. This can be accomplished, we believe, through adoption of these provisions in the reauthorization of the Higher Education Act. These modifications are included in the recommendations of the American Council on Education and have our full support.

They include:

- An increase in GSL annual borrowing limits to $8,000
- An increase in aggregate undergraduate and graduate GSL borrowing limits to at least $40,000
- Restoration of loan consolidation programs
- Extension of the maximum available repayment period

The American Dental Association respectfully requests this statement be included as a part of the official hearing record.

Sincerely,

John L. Bomba

John L. Bomba, D.D.S.
President
American Dental Association

Prepared Statement of the American Medical Student Association

The American Medical Student Association (AMSA) is a national organization of over 30,000 medical students at over 140 allopathic and osteopathic medical schools throughout the United States. AMSA is an independent organization of physicians-in-trianing committed to the improvement of medical education and health care delivery so that we, as practicing physicians, may better meet the health care needs of the nation's people.

The American Medical Student Association has long been an active participant in the dialogue on health manpower planning. In the past, we have supported federal efforts to increase the number of graduating physicians, federal programs that place physicians in underserved areas, such as the National Health Service Corps, and programs aimed at improving the geographical and specialty distribution of physicians. Recently, the federal government's role in medical education has shifted from incentives to expand the number of medical school graduates to a focus on physician distribution. After the release of the Graduate Medical Education National Advisory Committee (GMENAC) report stating that there would be a surplus of physicians by 1990 and further studies suggesting a "physician diffusion" into previously underserved areas, health manpower policy has shifted to incorporate these purported facts.

A new era of health professions assistance has been characterized by a reluctance on the part of the federal government to subsidize medical education, because "there are already too many physicians." There appears to be a suspicion that the provision of subsidized aid for medical students will increase the number of physicians. This simply is not the case. Support for undergraduate medical education does not influence the number of students obtaining a medical degree, rather it determines who is able to afford a medical education. AMSA believes that there must continue to be equal access to a medical education to ensure that minority and disadvantaged students are not refused a health professions education on the basis of their ability to pay.

The Guaranteed Student Loan Program (GSL) is the most important loan program for medical students. Approximately sixty (60) per cent of all medical students receive support through this Title IV program. GSL provided forty (40) per cent of the total financial aid received by medical students. It serves as the primary loan, on top of which lesser or non-subsidized, high interest loans are added as needed. In the 1983-1984 school year, medical students borrowing under the GSL program received an average of $4,830, an amount very near the $5,000 maximum yearly borrowing limit.

There is an acute need to increase the annual and cumulative GSL borrowing limits. Medical education is exceedingly expensive, and tuition costs continue to rise. Changes in federal support for undergraduate medical education, such as the elimination of capitation grants to medical schools in FY82, have resulted in skyrocketing tuitions, decreasing availability of low-interest loans and scholarships, and an increasing dependence on high interest loan programs. The average annual cost of a medical education at a private school is currently $21,925, and at a public school it is $11,352 for state residents. This represents an increase of over one hundred (100) per cent in the tuition for private schools over the last decade, and a comparable increase of over fifty (50) per cent in public school tuition. Yet, during this period, the maximum GSL allowance has not kept pace with the increasing needs.

It is imperative that the maximum annual borrowing limit be increased from $5,000 to $8,000, with a new cumulative limit of $40,000 for graduate and professional students attending institutions at which the tuition is $5,000 per year or more. GSL needs to more accurately reflect the current high rates of tuition.

Higher GSL limits would considerably ease the financial burdens of health professional students by providing more low cost loans and decreasing dependence on the unsubsidized, exhorbitantly expensive Health Education Assistance Loan (HEAL) program. In 1984, the mean debt upon graduation from medical school was $26,883. Over the last five years, the fraction of students whose debt exceeds $50,000 has more than quintupled.

The American Medical Student Association is very concerned about the potential impact of medical student indebtedness on the future specialty and geographic distribution of physicians. As medical students graduate with astronomical debts, they will be forced to enter the more lucrative subspecialties as opposed to primary care medicine. Recently, a study by the American Medical Association's (AMA's) Center for Health Policy Research documented that as the fraction of debt that is HEAL-based increases, the proportion of resident physicians planning to pursue primary care declines. In contrast, it showed that an increase in subsidized debt (i.e., GSL) actually increases the probability of selecting primary care among non-white residents. It has also been shown in AAMC studies that those graduates with excessive debt burdens tend to set up practice in large cities, while those with lower debt burdens are more apt to practice in smaller towns. By allowing GSL borrowing limits to increase, our national health manpower goals may well be furthered.

Despite the fact that debt burdens have been increasing dramatically for medical students, our default rates have remained remarkably low. The default rates for medical students borrowing under the Health Professions Student Loan (HPSL) program, even with its stringent delinquency calculation formula, and the HEAL program, with its high interest rate, are less than five percent; a rate below that for most consumer loans and home mortgages. It is important to keep these facts in mind in light of the unsubstantiated and misleading attacks on health professions education assistance coming from the Administration.

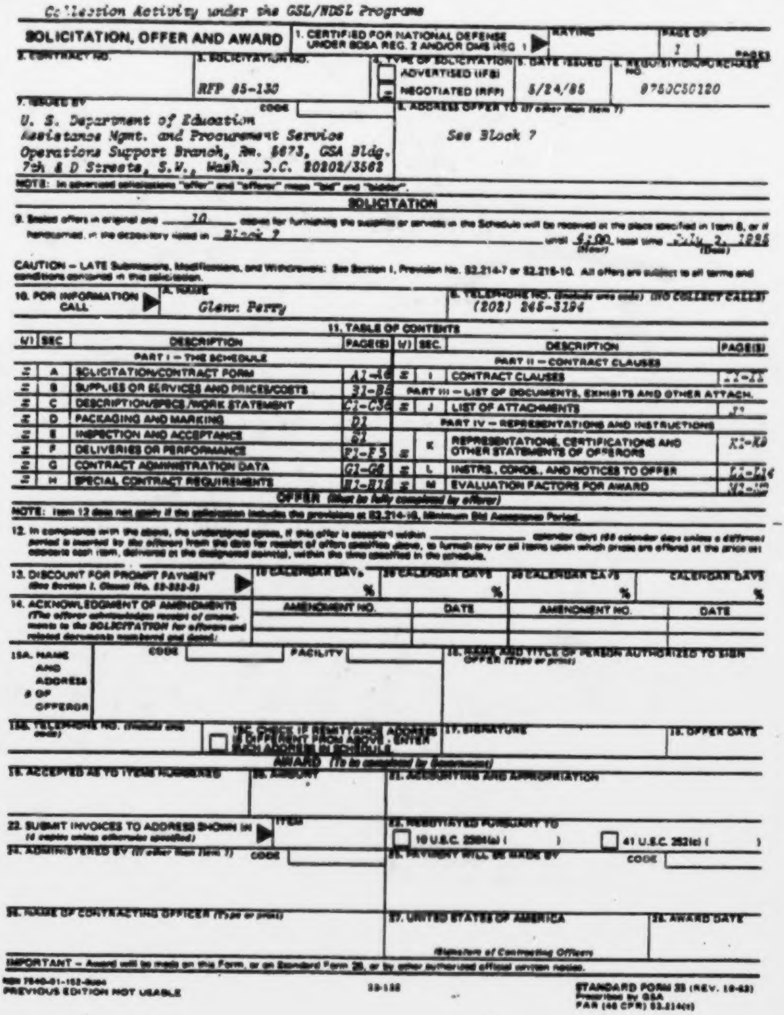
We believe that in light of the data presented on increasing debt burdens and its effect on manpower distribution, several modifications should be considered in Title IV programs. As debt burden increases, with seventy four (74) percent increase in the last four years, it will be critical to incorporate an extended and graduated repayment system for these loans. This repayment system, which we believe should include at least a fifteen year repayment period for students with large debt burdens, would allow graduated repayment to more closely parallel the income earning capacity of physicians through the course of postgraduate training and lessen the possibility of default. The average housestaff income for a third year resident is $22,439. According to the AMA Center for Health Policy Research, the average graduating medical student has a debt load that is equivalent to 147 per cent of what he or she will be paid as a first year resident. This figure is in contrast to the average accumulated educational debts for other professional students, including a debt burden representing seventy (70) per cent of the first year salaries for law school graduates and forty two (42) per cent of first year salaries for graduates of doctoral programs.

We also believe that loan consolidation authority, which expired in 1983, needs to be restored. Loan consolidation allows students the opportunity to stretch large loans over twenty years, simplify their relationships with banks and credit agencies, and allow for ease of repayment. In addition, loan consolidation may result in even lower default rates. We endorse an approach of weighted interest rates on loans which are to be consolidated, with a linkage between the amount borrowed from Title IV to the length of the repayment period as proposed by the American Council on Education. Our major reservation is the cost inherent in subsidizing loan consolidation. Although many of the measures proposed would decrease the costs of the program, we would not want the monies for a loan consolidation program to be taken out of the funds available to current medical students.

AMSA also supports a needs-based approach to the distribution of GSL's. In a time of limited resources and fiscal constraints, it is crucial that these funds go to the students who most require the assistance. We oppose arbitrary family income limits and instead prefer the development of a comprehensive, needs-based analysis which allows for variability in medical student need profiles. We also support the concept of a needs-based professional/graduate student grant program for first and second year students. AMSA shares the concern of maintaining equity in access to a medical education, and further, we are dismayed by the decline in enrollment of minorities in medical school. As cost serves as a major deterrent to the pursuance of medical education for disadvantaged students, grants to students in need may prove to be a significant factor in increasing minority and disadvantaged students' enrollment in medical school.

To conclude, the American Medical Student Association strongly believes that the GSL program under Title IV of the Higher Education Act plays a critical role in maintaining equal access to medical education. AMSA urges its reauthorization with the modifications outlined above. We thank you for this opportunity to present our views.

[Additional material submitted for the record follows:]



Collection Activity under the GSL/NDSL Programs

SOLICITATION, OFFER AND AWARD

1. CERTIFIED FOR NATIONAL DEFENSE UNDER BDSA REG. 2 AND/OR DMS REG. 1 ▶ RATING

PAGE OF 1 PAGES

2. CONTRACT NO.

3. SOLICITATION NO. RFP 85-130

4. TYPE OF SOLICITATION ☐ ADVERTISED (IFB) ☒ NEGOTIATED (RFP)

5. DATE ISSUED 5/24/85

6. REQUISITION/PURCHASE NO. 0750C50120

7. ISSUED BY CODE

U. S. Department of Education
Assistance Mgmt. and Procurement Service
Operations Support Branch, Rm. 5673, GSA Bldg.
7th & D Streets, S.W., Wash., D.C. 20202/3562

8. ADDRESS OFFER TO (If other than Item 7) See Block 7

NOTE: In advertised solicitations "offer" and "offeror" mean "bid" and "bidder".

SOLICITATION

9. Sealed offers in original and 10 copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if handcarried, in the depository located in Block 7 until 4:00 (Hour) local time July 2, 1985 (Date)

CAUTION – LATE Submissions, Modifications, and Withdrawals: See Section I, Provision No. 52.214-7 or 52.215-10. All offers are subject to all terms and conditions contained in this solicitation.

10. FOR INFORMATION CALL ▶ A. NAME Glenn Perry B. TELEPHONE NO. (Include area code) (NO COLLECT CALLS) (202) 245-3194

11. TABLE OF CONTENTS

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x	B	SUPPLIES OR SERVICES AND PRICES/COSTS	B1-B6			PART III – LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.	
x	C	DESCRIPTION/SPECS./WORK STATEMENT	C1-C36	x	J	LIST OF ATTACHMENTS	J1
x	D	PACKAGING AND MARKING	D1			PART IV – REPRESENTATIONS AND INSTRUCTIONS	
x	E	INSPECTION AND ACCEPTANCE	E1				
x	F	DELIVERIES OR PERFORMANCE	F1-F5	x	K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	K1-K8
x	G	CONTRACT ADMINISTRATION DATA	G1-G6	x	L	INSTRS., CONDS., AND NOTICES TO OFFER	L1-L14
x	H	SPECIAL CONTRACT REQUIREMENTS	H1-H16	x	M	EVALUATION FACTORS FOR AWARD	[illegible]

OFFER (Must be fully completed by offeror)

NOTE: Item 12 does not apply if the solicitation includes the provisions at 52.214-16, Minimum Bid Acceptance Period.

12. [illegible]

13. DISCOUNT FOR PROMPT PAYMENT (See Section I, Clause No. 52-232-8) ▶ 10 CALENDAR DAYS % 20 CALENDAR DAYS % 30 CALENDAR DAYS % CALENDAR DAYS %

14. ACKNOWLEDGMENT OF AMENDMENTS (The offeror acknowledges receipt of amendments to the SOLICITATION for offerors and related documents numbered and dated):

AMENDMENT NO.	DATE	AMENDMENT NO.	DATE

15A. NAME AND ADDRESS OF OFFEROR CODE FACILITY

16. NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER (Type or print)

15B. TELEPHONE NO. (Include area code)

15C. ☐ CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE – ENTER SUCH ADDRESS IN SCHEDULE.

17. SIGNATURE

18. OFFER DATE

AWARD (To be completed by Government)

19. ACCEPTED AS TO ITEMS NUMBERED

20. AMOUNT

21. ACCOUNTING AND APPROPRIATION

22. SUBMIT INVOICES TO ADDRESS SHOWN IN ▶ ITEM (4 copies unless otherwise specified)

23. NEGOTIATED PURSUANT TO ☐ 10 U.S.C. 2304(a) ( ) ☐ 41 U.S.C. 252(c) ( )

24. ADMINISTERED BY (If other than Item 7) CODE

25. PAYMENT WILL BE MADE BY CODE

26. NAME OF CONTRACTING OFFICER (Type or print)

27. UNITED STATES OF AMERICA

(Signature of Contracting Officer)

28. AWARD DATE

IMPORTANT – Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice.

NSN 7540-01-152-8064
PREVIOUS EDITION NOT USABLE

33-133

STANDARD FORM 33 (REV. 10-83)
Prescribed by GSA
FAR (48 CFR) 53.214(c)

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C.

ASSISTANCE MANAGEMENT AND PROCURMENT SERVICE
REQUEST FOR PROPOSALS
RFP 85-130
ISSUE DATE: May 24, 1985
DUE DATE: July 2, 1985

Prospective Offerors:

You are invited to submit a proposal for the Department of Education Collection Activity Under the Guaranteed Student Loan and National Direct/Defense Student Loan Programs, in accordance with the requirements of this solicitation, which are contained in sections A through M of this Request for Proposals (RFP).

This is an acquisition for the collection of defaulted loans and the performance of associated debt management requirements of the Department's GSL/NDSL programs.

Your proposal must be received no later than July 2, 1985, 4:00 P.M. local time at the address indicated in Block 7 of SF-33.

Special attention is directed to the "Certification of Nonsegregated Facilities" of this solicitation. You are cautioned that failure to agree to the certification shall render your proposal nonresponsive to solicitations involving awards of contracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause.

Your proposal must be prepared in accordance with the Solicitation Instructions and Conditions, section L of this RFP. The proposal shall be signed by an official authorized to bind the offeror, and it shall contain a statement to the effect that the proposal is firm for a period of at least ninety days from the date set for receipt of proposals, including any extensions thereof.

Proposal must set forth accurate and complete information as required by this RFP (including any attachments). The penalty for making false statements in proposals is prescribed in 18 USC 1001.

Requests for information or questions concerning this solicitation are to be referred solely to the undersigned in writing and must be received not later than 4:30 P.M. local time on June 10, 1985 to allow time for amendment of this solicitation, should that be necessary.

Sincerely yours,

Glenn Perry
Contracting Officer

NOTE: MORE THAN ONE CONTRACT AWARD MAY RESULT FROM THIS SOLICITATION. SEE ARTICLE M.3.

RFP NO. 85-130

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B.1.1. Price Schedule (see #2 below for definitions)

Contract Period	Year One	Year Two	Year Three	Year Four
Commissions *	____%	____%	____%	____%
Litigation Preparation Fee	$____	$____	$____	$____
Resolution Fee	$____	$____	$____	$____

* Does not include any incentive fee. See item 2d below.

B.1.2. Description of Price Categories

The price categories listed above are defined as follows:

a. COMMISSION FEE (FIXED)

Commissions shall be paid to the contractor on dollars collected under this contract at the negotiated rate proposed to and accepted by the Department of Education.

The dollars eligible for contractor commissions are those deposited net dollars (total deposited less returned checks). The amount and duration of the commissions paid shall be based on a date beginning thirty (30) days after transfer of the account by the Contracting Officer and the return of the account to ED. The contractor shall not be paid a commission on the following:

(1) Dollars received by ED within thirty (30) days after ED transferred the account to the contractor. However, otherwise eligible dollars received by ED after thirty days will be subject to commission payment.

(2) School or lender refunds. Such refunds are not considered repayments from the debtor, but reimbursements of a portion of claims paid by ED.

(3) Lender repurchases of FISL accounts.

(4) Unidentified repayments. Such repayments which are not posted to the accounts of debtors are not subject to commission payment.

(5) Any adjustments to the outstanding balance of accounts through administrative resolution including amounts waived through write-off, compromise, cancellation or closure due to the debtor's death, disability, or bankruptcy.

(6) The value of post-dated checks relinquished to ED upon return of those accounts to the Department.

(7) Dollars collected in excess of an individual's balance, resulting in overpayment by the debtor.

(8) Dollars received by ED or the contractor on any account after it has been returned to ED.

(9) Dollars received through any Federal, State or local government salary offset, refund, garnishment or other administrative action which results in the reduction or elimination of the debt in a manner beyond the scope of the contractor's performance.

b. FIXED LITIGATION PREPARATION FEE

The contractor shall be paid a fixed fee for preparation of litigation cases performed under this contract. The fee for the preparation of litigation cases for transfer to the Department of Justice shall be paid the contractor at the negotiated fee proposed to and accepted by ED.

Please refer to the "Minimum Account Resolution Standards by Category of Account", Section 3.1.2.2.2.2, of the Work Statement for an explanation of the work to be performed for payment under this fixed litigation preparation fee section.

c. FIXED RESOLUTION FEE

The contractor shall be paid a fixed fee for all administrative resolutions on which the contractor receives the required documentation detailed in the Statement of Work. The fee for these administrative resolutions will be paid to the contractor at the negotiated fee proposed to and accepted by ED.

This fee will only be paid when an account has been approved for 100% resolution. The resolution fee will not be paid when only partial cancellation or resolution is approved (i.e., Partial NDSL Teacher Cancellation).

Please refer to the "Minimum Account Resolution Standards by Category of Account", Section 3.1.2.2.2.2, of the Work Statement for an explanation of the work to be performed for payment under this fixed resolution fee section.

d. INCENTIVE FEES (Applies to Item 2.a. Commission Fee only)

This contract contains an incentive fee scale which will be paid the individual contractor if net-back dollars (to ED) exceed pre-set goals. The conditions under whichthis incentive fee will be paid are as follows:

The incentive fee plan examines three factors.

Factor #1, **NET-BACK DOLLARS TO ED**, is the actual dollars that ED realizes after the contractor commissions have been subtracted from the amounts recovered.

> (Example: Contractor collects $1.5m during first year of the contract at a pre-established commission rate of thirty (30) percent; **NET BACK** to ED is: $1.05m [$1.5m less commission of $450,000 (30% of $1.5m)].

Factor #2, **AVERAGE DAILY BALANCE**, is the average daily balance of the dollar value of all accounts transferred to the contract collection agency within a specified period of time.

(Example: a) ED transfers $10m in accounts on 1/1/85; b) another $10m on 4/1/85; c) an additional $10m on 7/1/85; d) and a final $10m on 10/1/85. As of December 31, 1985, given the number of days that each dollar value increment has been in contractor hands, the following calculation is made:

a) $3,650m [$10m x 365 days] + b) $2,750m [$10m x 275 days] + c) $1,530m [$10m x 153 days] + d) $ 920m [$10m x 92 days] = $8,850m.

Therefore, $ 8,850m divided by 365 days = an **AVERAGE DAILY BALANCE** of $24.25m.

Factor #3, **INCENTIVE GOAL**, is a predetermined percentage resulting from past ED experience which equates to the result of:

NET BACK as % of **AVERAGE DAILY BALANCE** = XX.X%

ED will set **INCENTIVE GOALS** which reflect levels of success which, in turn, equate to bonuses equal to a certain percentage of the **TOTAL CONTRACTOR COLLECTIONS** for the evaluation period (each bonus year). The incentive goals for this contract will be:

If the **NET BACK** as a percent of the **AVERAGE DAILY BALANCE** falls within any of the ranges in Chart A, the contractor will receive a bonus of X.X% (Chart B) of the **TOTAL CONTRACTOR COLLECTIONS** at the end of each bonus year.

CHART A	CHART B
8.00% - 8.99%	1.0 %
9.00% - 9.99%	1.5 %
10.00% - 10.99%	2.0 %
11.00% - 11.99%	2.5 %
12.00% - 12.99%	3.0 %
13.00% - 13.99%	3.5 %
14.00% - 14.99%	4.0 %
15.00% & Up	5.0 %

The following examples reflect how this INCENTIVE FEE PLAN will work:

Example A: Contractor collects $2.5m on the AVERAGE DAILY BALANCE ($24.25m) of loans during the first year. Contractor is charging a commission rate of 30%. The bonus calculation would be:

TOTAL COLLECTIONS LESS CONTRACTOR COMMISSION [NET BACK TO ED] as a % of AVERAGE DAILY BALANCE

$2.5m - (30% of $2.5m) = NET BACK

$2.5m - $750,000 = $ 1,750,000

$1.75m as a % of $24.25m = 7.22%

In this case, the contractor did not perform at a level of recovery high enough to qualify for a bonus.

Example B: Contractor collects $3.5m on the AVERAGE DAILY BALANCE of loans during the first year. The bonus calculation would be:

TOTAL COLLECTIONS LESS CONTRACTOR COMMISSION [NET BACK TO ED] as a % of AVERAGE DAILY BALANCE

$3.5m - (30% of $3.5m) = NET BACK

$3.5m - $1,050,000 = $2,450,000

$2.45m as a % of $24.25m = 10.10%

In this case, the contractor performed at a level of recovery which entitled them to a bonus of 2% of their TOTAL COLLECTIONS for the evaluation period.

BONUS PERCENTAGE x TOTAL CONTRACTOR COLLECTIONS = BONUS

2.0% x $3.5m = $70,000

The contractor's bonus, therefore, would be $70,000.00 over and above the normal 30% commission. Total return to the contractor for that year would then be:

30% x $3.5m = $1,050,000 plus $70,000 for a total of $1,120,000 for the year.

SECTION C- Description/Specifications/Work Statement

Private Sector Collection Activity Under the Guaranteed Student Loan and National Direct/Defense Student Loan Programs

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Section C -- Work Statement

Private Sector Collection Activity Under
the Guaranteed Student Loan and
National Direct/Defense Student Loan Programs

1.1 PURPOSE

The Department of Education (ED), Office of Postsecondary Education (OPE), is soliciting proposals from collection agencies with nation-wide contact capabilities. The purpose of this contract is to perform collection and administrative resolution activities for ED under the Guaranteed Student Loan (GSL), Federal Insured Student Loan (FISL) and National Direct/Defense Student Loan (NDSL) programs.

The contractor must perform duties in coordination with the ED collections centers. ED regional collections centers are currently located in Atlanta, Georgia; Chicago, Illinois; and San Francisco, California.

The contractor will have nine (9) months, beginning with the date of each increment transfer, to convert defaulted accounts to payment-in-full, satisfactory repayment, administrative resolution or prepare the account for litigation. If the contractor obtains verified information on the debtor (i.e., home address, employment information, etc.), and is unable to initiate repayment, the account is to be prepared for litigation immediately.

If accounts are not converted to one of these four categories within the nine-month period, or if an in-repayment account has become more than 120 days delinquent, return to ED, at the Department's option, may be effected. The contractor will be permitted to retain in-repayment accounts, and earn commissions thereon, for a period not to exceed the date of contract expiration. This is not to be confused with "contract termination" which includes immediate return to ED and suspension of all activities on all accounts regardless of current payment status. ED does, however, maintain the right to recall any account with thirty days notice to the contractor.

The Department's Contracting Officer's Technical Representative (COTR) will be located in Washington, D.C., however, prime contractor sites must provide private offices and related furniture, electrical and phone service to accomodate Department of Education On-site Monitors (two per contract).

ED is seeking contractor services to:

-- Establish a FISL and NDSL collections program to perform the complete range of collection activity specified in this Request for Proposal (RFP). This program shall include adequate training of contractor and subcontractor employees relative to the activities to be performed and the laws and regulations which govern such activities.

-- Establish and maintain computer software which can accept and accommodate data on all ED accounts, be updated daily, generate form letters and bills, and provide the information specified in this RFP. Access to all ED account data shall be restricted to collection and resolution activities on ED accounts exclusively. The data shall not be accessed by the contractor in connection with other collection efforts involving the same debtor under another contract.

-- Locate and contact debtors to demand payment of their debts to the Federal Government, either by immediate repayment in full of the outstanding balance or by establishing a repayment schedule which is satisfactory to the Department of Education.

-- Based on criteria set by ED, prepare eligible cases for immediate litigation. Accounts are to be prepared and returned to the ED Project Officer with the required documentation within five days of eligibility determination.

-- Provide computerized monthly billing statements to all debtors on installment payment schedules.

-- Maintain a hard-copy record (or computerized record easily convertible, within 48 hours, to hard-copy) of all activities performed on each account.

-- Receive, process and deposit payments from debtors, and enter and balance repayment information into a transaction file on the ED computer system.

-- Return accounts and associated records, accompanied by all required documentation, to ED within time-frames specified in this RFP.

-- Perform activities in adherence with all applicable laws and regulations.

The activities to be performed require expertise in large-scale nationwide skip-tracing and collection of consumer loans. (Experience in the litigation of accounts is not specifically required, however, the contractor will be required to prepare all cases eligible for litigation). On any account for which the contractor and/or ED determines that litigation is the next appropriate enforcement action, the contractor will be responsible for the preparation of the full documentation package before return to regional collection center for transfer to the litigating party. This includes, but is not limited to, the verification (within 30 days) of current debtor address, employment, and assets.

The following mandatory requirements shall therefore be met:

-- Each contractor shall have, or establish, within ninety (90) days of contract award, a managing office in the city designated as the prime contractor site. This office shall be under the direct control of the contractor. However, collection activities do not, necessarily, have to be performed in this office.

This office will function as a liaison office between ED and the contractor. Meetings between ED and contractor personnel will take place either in this office, Washington, D.C., or the regional ED office. All inquiries on specific debtors etc. will be coordinated by this office. In addition, the receipt of all accounts placed with the contractor by ED will be coordinated by this office.

-- Each contractor shall protect the Federal Government against loss of monies and loss of, or damage to, property.

-- Each contractor must agree to indemnify, defend and hold the Federal Government harmless from all liability, loss, damages, claims and other expenses, including attorney's fees and court costs, originating from or in connection with the contractor's performance under this contract.

2.1 BACKGROUND

2.1.1 The Programs

The GSL and NDSL programs are authorized under the Higher Education Act of 1965, Title IV, Parts B and E respectively. This legislation is amended periodically, with the result that different provisions may apply depending upon when certain activities (e.g. loan disbursement, claim payment) take place.

2.1.1.1 Guaranteed Student Loan (GSL) Program

This program's primary objective is to make low interest, long-term loans available to postsecondary education students to help them meet their educational expenses. Loans are made without regard to financial need, although they cannot exceed the borrower's cost of education less other aid received. Repayment usually begins between six and twelve months after the borrower ceases to be at least a half-time student at an eligible institution and ranges, at the original lender's option, from five to ten years except where the required minimum annual repayment of $360 (on principal plus accrued interest) does not permit such an extended repayment schedule. Deferment or cancellation of loan repayment is possible under certain legislative provisions.

Guaranteed Student Loans are made by participating lending institutions using non-Federal funds. The loans are either guaranteed by State and private non-profit agencies and re-insured by the Federal Government under the Guarantee Agency (GA) Program, or are insured directly by the Federal Government under the Federally Insured Student Loan (FISL) Program. The lenders or subsequent note holders must adhere to the due diligence requirements in making, disbursing, servicing and collecting loans as outlined in the GSL regulations, 45 CFR 682.509-511, 44 Fed. Reg. 53868, September 17, 1979, redesignated 34 CFR 682.509-511, 45 Fed. Reg. 30802, May 9, 1980.

Claims for reimbursement of loan principal and accrued interest for reason of default, death, disability or bankruptcy on the part of the borrower may be submitted to the appropriate Guaranteed Agency (under the GA Program) or the appropriate ED Regional Office (under the FISL Program) once the lender has fulfilled these requirements. The Guarantee Agencies apply to ED for partial or full reimbursement of approved claims, but continue collection activity on the defaulted GA accounts. ED resumes collection activity on the FISL accounts once the FISL claims have been approved. Since this contract is for collection activity to supplement ED's efforts, its scope does not presently include the collection of defaulted GA accounts, however, ED may initiate collection activity on this type of account in the future and subsequently refer accounts for private collection activity.

As of December 31, 1984, a total of 767,603 defaulted FISL claims valued at $1.14 billion have been paid by the Department. A total of 261,258 accounts have been closed as a result of ED collection activity through payment in full, write-off, or cancellation on the basis of death, total and permanent disability or bankruptcy.

2.1.1.2 National Direct/Defense Student Loan (NDSL) Program

Under this program ED assists in the establishment and maintenance of revolving loan funds at institutions of higher education to provide low interest, long-term loans to help financially needy students pay their educational costs. Students must apply directly to their schools to participate in the NDSL program. Repayment begins a specified number of months after the borrower ceases to be at least a half-time student and can be up to ten years in length except where the required minimum annual repayment of $360 (on principal plus accrued interest) does not permit this. Deferment or cancellation of loan repayment is possible under certain legislatively mandated conditions.

NDSL regulations require schools to exercise due diligence in the collection of NDSL accounts (34 CFR Part 674 Subpart C, 46 Fed. Reg. 5237, January 19, 1981. However, in 1979, because of the rising institutional NDSL default rate, OPE implemented provisions of the Higher Education Act, as amended, whereby schools could submit defaulted NDSL accounts to OPE for additional collection activity.

To be eligible for submission to ED, an NDSL account must have been in default for at least two years; show evidence of due diligence in collection efforts as required according to regulations in effect when the loan entered into default; constitute a valid debt; and have the required supporting documentation.

ED has received 560,781 NDSL accounts valued at $550.2 million from institutions through December 31, 1984. A total of 71,941 accounts have been closed by collection activity (paid in full, written-off, or cancelled for reason of death, disability, bankruptcy or programmatic cancellations).

2.1.2 ED and Private Collection Agency Collection Activity

The principal statutes and regulations governing ED's collection activity are:

-- The Higher Education Act of 1965, Title IV, Part B, as amended (20 U.S.C. 1071-1087-3a) and FISL implementing regulations (34 CFR Part 682 -- formerly 45 CFR Part 177); and Part E, as amended (20 U.S.C. 1087aa - 1087ii) and NDSL implementing regulations (34 CFR Part 674 -- formerly 45 CFR Part 174).

-- The Federal Claims Collection Act of 1966 (31 U.S.C. 952), as amended, and implementing regulations (4 CFR Parts 101-105 -- The "Joint Standards").

-- The Debt Collection of 1982 (P.L. 97-365).

-- The Bankruptcy Code, as amended (11 U.S.C. 101 *et seq*) especially Sections 523(a)(8) and 523(b).

-- The Privacy Act of 1974 (5 U.S.C. 552a).

ED currently collects on defaulted FISL and NDSL accounts out of its three Regional Collection Centers and three private collection agencies under contract with on-line access to system support provided under separate contract.

The Secretary of ED has statutory authority to contract for collection services under the Higher Education Act of 1965, as amended (20 U.S.C. 1080 (b) and 20 U.S.C. Section 1087hh(a)(4), the Department of Education Organization Act of 1980 (20 U.S.C. 3475) and the Debt Collection Act of 1982 (P.L. 97-365).

Recent amendments to the Federal Claims Collection Standards (the "Joint Standards") encourage use of contract collection services (46 Fed. Reg. 22353, April 17, 1981). These changes require that a collection contractor, in addition to complying with the laws cited above, and specifically the Privacy Act, must also comply with applicable Federal and State laws and regulations pertaining to debt collection practices, such as the Fair Debt Collection Practices Act, 15 U.S.C. Section 1692. Furthermore, both ED employees and contractor employees are subject to criminal prosecution for willful disclosure to third parties of information secured from Federal tax returns (26 U.S.C. Section 7213(a)(2), as amended by Section 302(b) of P.L. 96-499, 94 Stat. 2604. Such information would include debtor addresses provided to the contractor by ED from tax return records secured from the Treasury Department. ED and contractor employees who make inappropriate disclosure of individually identifiable information may be liable to the criminal penalties as specified in the Privacy Act (5 U.S.C. 552a(i)).

3.1 SCOPE OF WORK

3.1.1 Phase A -- Implementation, Training & Quality Control

3.1.1.1 Implementation

Upon contract award, the contractor shall establish a collections program in accordance with the provisions of this contract. This includes finalizing procedures relating to the transfer of accounts, reports and other information between ED and the contractor; developing a Collections Training Manual and a Standard Operating Procedures Manual for approval by the Project Officer for use by contractor and subcontractor personnel; obtaining Project Officer approval on the formats of letters, bills and other material proposed by the contractor in its response to this RFP; establishing an operational system to store OPE account records on the contractor's computer system; and establishing and successfully testing communications between the contractor's terminals and OPE's system for purposes of payment processing. These provisions must be completed by the contractor prior to the first placement of accounts.

3.1.1.2 Training

The contractor shall conduct regular (ED monitored) in-house training sessions for its employees and shall ensure that regular in-house training sessions are provided to subcontractor employees to ensure adherence to applicable laws and regulations. The contractor shall conduct periodic refresher training to inform employees and subcontractor employees of any changes in operational procedures, laws or regulations. Each employee and subcontractor employee assigned to this contract shall receive training relevant to the Privacy Act of 1974, and shall certify that they have received this training before they begin any collection activity on ED accounts. The acknowledgement form to be signed by each employee or subcontractor employee is attached as Appendix II.

3.1.1.3 Quality Control

ED is committed to quality control as a means of ensuring quality performance and achievement. The contractor shall adopt this philosophy also, and to that end, shall implement, upon final approval by the Contracting Officer, the quality control plan designed and proposed by the contractor in response to the solicitation for this contract.

3.1.2 Phase B -- Ongoing Collection Agency Activities: Receipt of Accounts, Collection Activity Payment Processing and Return of Accounts

3.1.2.1 Receipt of Accounts

3.1.2.1.1 Number of Accounts

ED will have available approximately 400,000 never paid and delinquent accounts. All accounts will have had at least minimum collection activity within the ED internal collection centers. Others have also been worked by at least one (and in some cases two) private collection agencies.

Private Agency Activity

Ninety (90) days after contract award, each contractor will receive the first transfer of accounts.

Additional account transfers will be based on evaluations conducted by the Department of Education. Refer to the "SPECIAL CONTRACT REQUIREMENTS" portion of this solicitation for descriptions of the evaluations to be conducted in determining contractor performance.

3.1.2.1.2 Account Characteristics

Current general characteristics of the entire portfolio to be transferred are presented below, based on the date of original default. The Department of Education does not guarantee that transfers tothe contractor will reflect these exact percentages. They are presented for information only.

FEDERAL INSURED STUDENT LOAN PORTFOLIO

ACCOUNT VALUE	$ % OF PORTFOLIO
$ 0 - 600	31.9
600 - 1,000	19.2
1,000 - 2,000	27.7
2,000 - 3,000	11.0
3,000 - 4,000	3.8
4,000 - 5,000	2.5
5,000 - 6,000	1.5
6,000 - OVER	2.4

AGE CATEGORY	$ % OF PORTFOLIO
0 - 1YR	5.7
1 - 2	5.8
2 - 3	6.1
3 - 4	9.8
4 - 5	7.3
5 - 6	12.2
6 - 7	14.2
7 - OVER	38.9

NATIONAL DIRECT STUDENT LOAN PORTFOLIO

ACCOUNT VALUE	$ % OF PORTFOLIO
$ 0 - 600	46.3
600 - 1,000	19.8
1,000 - 2,000	22.2
2,000 - 3,000	7.2
3,000 - 4,000	2.5
4,000 - 5,000	1.1
5,000 - 6,000	.5
6,000 - OVER	.4

AGE CATEGORY	$ % OF PORTFOLIO
0 - 1YR	0.1
1 - 2	0.1
2 - 3	1.4
3 - 4	5.6
4 - 5	7.7
5 - 6	10.0
6 - 7	10.7
7 - OVER	64.4

The portfolios of the FISL and NDSL accounts eligible for transfer to the contractor are all national in character. FISL accounts are located at the ED regional center handling collections for the state in which the lender (filing the claim) is located; NDSL accounts are, generally, located at the regional center handling collections for the state in which the institution (which generated the promissory note) is located. Appendix III lists the states located within each regional collection center area.

3.1.2.1.3 ED Account Selection Criteria

ED will select the accounts to be transferred to the contractor using the following procedure:

(1) ED will identify those accounts eligible for transfer. If the contractor determines, through discussion with the debtor, ED or through any other means, that an ineligible account has been transferred, the contractor shall return the account with appropriate documentation within thirty (30) calendar days of identification of such an account. Ineligible accounts include:

-- FISL and NDSL accounts which have had a payment received by ED within the last 120 days;

-- FISL accounts with claims paid by ED due to death or disability;

-- FISL and NDSL accounts currently involved in bankruptcy proceedings;

-- FISL and NDSL accounts associated with lenders or institutions under investigation by the Government for irregularities in program activities on which ED suspends collection activity, until such time as ED determines that these accounts should be collected;

-- FISL and NDSL accounts comprised of two or more loans which are located in different ED Regional Offices;

-- FISL and NDSL accounts which have been referred for litigation;

-- FISL and NDSL accounts of Federal or Military personnel which have been identified in any Offset Match Project;

-- FISL and NDSL accounts with principal and interest balances of less than $100.00;

-- FISL and NDSL accounts which are pending ED compromise, write-off, bankruptcy, death or disability close-out;

(2) All eligible accounts will have been matched against Internal Revenue Service (IRS) records to obtain updated address information within the most recent tax year. (Note: ED will match all unlocated

contractor accounts with IRS records within twelve months of account transfer and will supply any updated information to the contractor on a monthly schedule via magnetic tape.

(3) ED will have sent a letter to the last known address of all eligible accounts. This letter will inform the debtor that the account will be placed with the contractor unless ED receives payment within a specified time-frame. The letter will also provide the title and address of the ED official to whom questions regarding the contractor's procedures or policies should be directed.

3.1.2.1.4 Transfer of Accounts

The contractor will receive the following items in conjunction with each transfer of accounts:

(1) A magnetic Transfer Tape which identifies the accounts to be transferred to the contractor (Appendix IV);

(2) A hard-copy, computer generated Transfer Report which lists the accounts to be transferred to the contractor (Appendix V); and

(3) A magnetic tape of Student Account Sheets which contains detailed financial data on each account (Appendix VI);

If, during the course of collection, the contractor determines that it needs more of the information that is in ED's possession, it must secure such information using contractor staff, from the hard-copy account files, or account activity cards which will be available for review by the contractor at the designated ED regional collection center.

3.1.2.2 Collection Activity

The contractor must systematically resolve all accounts transferred. This involves:

(1) Working all accounts according to the schedule proposed by the contractor and in accordance with the terms and conditions of the contract.

(2) Expending a level of effort which is equal to the "Minimum Account Resolution Standards" given below.

(3) Process correspondence (prepare and forward responses) within 30 days of receipt.

(4) Providing information, within specified timeframes, to ED to resolve complaints.

(5) Maintaining a current hard-copy record (or computerized record easily convertible within 48 hours to hard-copy) of all activities taken on each account.

(6) Producing, on at least a monthly basis, management and fiscal reports monitoring contractor performance, as specified in the DELIVERIES AND PERFORMANCE portion of this contract.

The contractor shall ensure that all attempts to make recoveries on accounts transferred are fair and reasonable, and do not involve harassment, intimidation, false or misleading representation, or unnecessary communications concerning the existence of any such loan information to persons other than the debtor. Requests for information from third parties shall be referred to ED. The contractor is required to comply with all applicable Federal and State laws relating to debt collection. Failure to comply will result in immediate penalties and/or termination of the contract agreement.

3.1.2.2.1 Scheduling of Collection Activity

The contractor shall process accounts in accordance with the account processing schedule proposed by the contractor and in accordance with the terms and conditions included in the contract. The schedule shall specify, for each processing step (beginning with the receipt of an account by the contractor through return of the account to ED), the maximum number of workdays before each typical account shall be moved from one collection activity to the next.

The contractor shall not allow a backlog to develop (i.e. no processing action started or accounts backlogged at any given processing step) on the collection activity to exceed thirty (30) calendar days. The contractor is responsible for notifying the COTR and Contracting Officer, in advance, of any conditions which may result in an excessive processing backlog. This notification does not alleviate the contractor's duty to perform within terms and conditions of the contract and any delay requires the written authorization of the Contracting Officer. It shall have contingency plans which specify the internal actions to be taken to control and eliminate potential or actual processing backlogs.

3.1.2.2.2 Minimum Account Resolution Standards

The collection activities listed in this Section are the minimum collection activities to be performed and the minimum documentation to be obtained by the contractor for the various categories of accounts. The contractor is encouraged to propose alternative activities prior to contract award, provided they are consistent with the requirements of applicable laws and the standards set forth below.

3.1.2.2.2.1 Locating and Contacting the Debtor

The contractor must attempt contact with the debtor by mail and telephone upon receiving an account from ED. Whenever the contractor determines that ED's last known address is incorrect, it must perform skip-tracing efforts to locate the debtor. If the contractor contacts the debtor at an address other than ED's last known address (and hence the debtor might not have received ED's notice of the transfer of his account to the contractor), the contractor will advise ED of the address correction via the monthly address change tape. The contractor must also obtain the COTR's prior approval of the format and content of all form letters used for skip-tracing.

3.1.2.2.2.2 Minimum Account Resolution Standards by Category of Account

ACCOUNTS IN REPAYMENT/PAID IN FULL

Once the contractor has contacted the debtor, the contractor shall demand immediate repayment of the obligation to the Federal Government. The contractor shall first demand repayment in full. If the contractor determines that repayment in full is not immediately possible, the contractor shall negotiate a mutually agreed upon repayment schedule. The contractor shall seek a substantial initial down-payment (at least one-third of the total outstanding balance) with monthly payments thereafter. All repayment schedules shall require that the loan be repaid at a minimum of $900 per year, however, cases substantiated with a financial statement and prior approval by the ED On-Site Monitor may be repaid at a lower annual rate. In no case, however, shall any repayment schedule extend for more than 3 years.

In some instances the contractor may find that an account cannot be converted to repayment or paid in full. This will occur when the debtor is unlocatable, unable to pay, refuses to pay, or is eligible for a non-discretionary write-off. The contractor shall handle such accounts as follows:

Unlocatable

An account may be categorized as (debtor) unlocatable only after the contractor has performed the following actions, based on the dollar value (current principal plus accrued interest) of the indebtedness:"

-- Accounts with a dollar value up to $600, the contractor must document completion of at least three (3) of the following:

  a) Address Correction Mail
  b) Directory Assistance Check
  c) Criss-Cross Directory Check
  d) Department of Motor Vehicles Check

-- Accounts with a dollar value of $600 or more, the contractor must document completion of the following:

  a) Same as for accounts up to $600
  b) Credit data which may take the form of:
    1. a commercial credit report;
    2. an agency investigative report showing the debtor's assets, liabilities, income and expenses;
    3. the individual debtor's own financial statement executed under penalty of perjury reflecting the debtor's assets, liabilities, income and expenses;
  c) Documented Check with at least one of the following:
    - Utility Company
    - Local Library
    - Church
    - Clerk of the Court
    - Professional or Social Organization

Inability to Pay at Present

During its collection efforts, the contractor may determine that a debtor recognizes his indebtedness and wishes to repay his obligation but is unable to do so at the present time. The contractor may classify an account as "Inability to Pay at Present" whenever the debtor meets any of the following documented conditions:

(1) On Welfare

This status should be documented by verbal verification from the welfare department, with the name, date and telephone number of the welfare department employee contacted noted by the contractor.

(2) Unemployed -- Drawing Unemployment Benefits

The minimum required documentation is verbal verification from the unemployment office, with the name, date and telephone number of the employee contacted noted by the contractor. The debtor's date of reporting, and an estimate from the debtor as to when regular employment might be obtained must also be documented.

(3) Unemployed -- Not Drawing Unemployment Benefits

The minimum required documentation is a signed financial statement, which also reaffirms the debt obligation, from the debtor in a format approved by the COTR. In such cases, attempt must be made to obtain a minimal monthly repayment from the current means of support.

(4) Insufficient Income at Present

This condition exists when the contractor has determined, based on a signed financial statement from the debtor in a format approved by the COTR, that the debtor presently has insufficient income to meet his basic needs. The financial statement must be retained as documentation along with an indication as to when the debtor believes his financial situation will improve sufficiently to begin or resume repayment.

(5) Illness

Certified documentation in a format approved by the COTR must be obtained from the debtor which substantiates temporary illness and that the debtor is not receiving sufficient income to begin or continue repayments.

(6) Other Extenuating Circumstances

These include, but are not limited to:

-- Financial hardship resulting from unexpected expenses. Required documentation would be a certified, verifiable financial statement from the debtor which is in a format approved by the COTR.

be verification from the appropriate officials that the debtor has been sentenced to a period of less than ten (10) years and that parole within three (3) years is possible. The contractor shall check the debtor's status when he is eligible for parole. If the sentence is longer than ten (10) years and/or parole is not possible within three (3) years, the contractor shall recommend the account for closure via write-off.

-- Hospitalization as a result of drug abuse, mental disorder, etc. The required documentation would be notification from the hospital or appropriate authorities as to when the debtor can reasonably be expected to be discharged and able to resume gainful employment. If this event is expected to occur prior to expiration of the legal statute of limitations, the contractor shall check the debtor's status periodically. Otherwise, the contractor shall recommend the account for closure via write-off.

The status of all "Inability to Pay at Present" accounts shall be re-examined at six month intervals or as otherwise specified by the COTR. This verification may be done either by mail or telephone, however, this verification must be documented. In addition to verifying the debtor's current status, his address and telephone number shall also be verified. If it is determined that the debtor's current status has remained unchanged over a period of at least the preceeding twelve months, and that there is no likelihood that the status will change in the foreseeable future, accounts in this classification may be candidates for write-off.

DEBTOR REFUSES TO PAY

During the course of its collection effort, the contractor may be informed by the debtor that he has no intention of repaying his debt. Such debtors will be of four (4) types:

(1) Unemployed Without Assets

It is unlikely that accounts in this category would be good candidates for litigation, however, they may be candidates for write-off. The contractor shall support such a recommendation to ED with items i) and ii), and at least one of items iii), iv) and v).

i) Contractor's documented verification that the debtor refuses to pay.
ii) A financial statement which confirms the debtor's lack of assets.
iii) Documentation of welfare status.
iv) Evidence of chronic unemployment or underemployment.
v) Certification in a format approved by the Project Officer that the ill health of the debtor would not qualify the debtor for total and permanent disability cancellation, but would preclude recovery of any substantial amount of the debt.

Debtors in categories (2) through (4) immediately below, may be candidates for litigation. The contractor is currently specifically prohibited from initiating any legal action against the debtor. The contractor must, if a debtor has not complied with the agreed upon repayment schedule, and is sixty (60) days behind in payments, prepare the account for litigation based on criteria set forth in this contract.

Accounts prepared for litigation are considered LITIGATION PREPARATIONS and are paid on a fixed fee basis as explained in the PRICES/COSTS portion of this solicitation.

Accounts prepared for litigation must have a total indebtedness of at least $600* and an enforceable Federal Statute of Limitations (six years from claim payment date or last payment date for FISL; six years from default date or last payment date for NDSL. Refer to Appendix I for the format to be followed and the required documentation necessary in the preparation of accounts for litigation.

In addition to the normal handling of the following types of accounts, these would also be potential candidates for litigation and must be reviewed as such.

(2) Unemployed but Possessing Assets

The contractor shall provide the following documentation:

i) Contractor certification of debtor's refusal to pay.

ii) Credit data which may take the form of: (a) A commercial credit report; (b) an agency investigative report showing the debtor's assets, liabilities, income and expenses; (c) the individual debtor's own financial statement executed under penalty of perjury reflecting the debtor's assets, liabilities, income and expenses.

iii) Copies of two demand letters or documentation that two such letters were sent.

iv) Documentation of one contact with the debtor, either by telephone, or through written response by the debtor.

(3) Employed and Without Assets

The contractor shall provide the following documentation:

* Subject to Change within 30-day notification.

i) Contractor certification of debtor's refusal to pay;

ii) Credit data which may take the form of:
    1. a commercial credit report;
    2. an agency investigative report showing the debtor's assets, liabilities, income and expenses;
    3. the individual debtor's own notarized financial statement reflecting the debtor's assets, liabilities, income and expenses.

iii) Copies of two demand letters or documentation that two such letters were sent;

iv) Documentation of one contact with the debtor, either by telephone, or through a written response by the debtor.

v) Verification of employment including the name and address of the debtor's employer.

(4) Employed and Possessing Assets

Same as for Employed and Without Assets.

ADMINISTRATIVE RESOLUTIONS

During its collection efforts, the contractor may find accounts in categories (1) through (4) below which are eligible for full, non-discretionary write-off of the debt by ED. In such situations, the contractor shall perform the steps and obtain the documentation required below. The contractor shall receive a fixed fee as described in Section B of this contract. Currently, the frequency of such administrative resolutions is six percent of the total annual resolutions.

Once the required documentation is received by the contractor, the case is to be reviewed to insure that all proper documentation is included. The debtor's file shall then be submitted to ED for disposition. Upon completion of the file review by ED, authority will be granted to categorize the account as a completed resolution case.

(1) Death

The debtor's death shall be documented by a copy of the death certificate or other evidence approved by OPE, such as the announcement of death in a local newspaper. A memo or note in the file from the contractor which indicates that an official of a County Clerk's office stated that the debtor is dead, but that a death certificate could not be readily provided, is also acceptable. The memo or note should cite the official's name, title, address and telephone number, the date of the conversation, the death certificate number, the date of death, and the reason why a copy of the death certificate cannot be obtained.

(2) Disability

If a debtor claims to be disabled, the contractor shall advise him to obtain certification of total and permanent disability from a doctor of medicine or osteopathy legally authorized to practice in the state.

A "Request for Cancellation of Loan on Grounds of Permanent and Total Disability" form (ED Form 1172) must be forwarded to the debtor. Supplies of this form will be made available by ED. Upon receipt of the completed ED Form 1172, the contractor shall return the account file to ED within thirty (30) calendar days.

(3) Bankruptcy

If a debtor claims that he has filed for bankruptcy, the contractor shall notify ED immediately and shall obtain a written statement from the debtor to that effect, a copy court's notice of the first meeting of creditors and schedule of unsecured creditors, and any other appropriate information regarding the date and chapter (7, 11 or 13) of the bankruptcy claim. Upon receipt of this information, the contractor shall return the account file and the debtor's statement within fifteen (15) calendar days to ED for final disposition of the account.

(4) Programmatic Cancellations (NDSL Accounts Only)

Special cancellation conditions are applicable to certain NDSL notes in cases where the debtor meets specified teaching requirements. As a part of its normal collection activities, the contractor shall identify those cases where cancellation entitlements apply, and shall perform the functions and obtain the required documentation.

The contractor shall immediately forward, to any debtor claiming cancellation entitlement, a cancellation form supplied by ED. The contractor shall direct the debtor to return the completed form to the contractor. Final decisions regarding the entitlement to such cancellations will be made by ED. The contractor shall then be responsible for notifying the debtor either by phone or letter as to whether loan cancellation has been approved, approved in part, or denied. The contractor shall be responsible for negotiating the repayment of all remaining outstanding balances.

3.1.2.2.2.3 Suspension of Collection Activity

The contractor shall suspend collection activity on an account and refer the issue, NOT RETURN THE ACCOUNT, to ED for resolution within five (5) working days after any of the following occur:

1. The debtor disputes the amount owed citing, for example, that the debt was never incurred, was paid off, or should have been cancelled.
2. Based on discussions with the debtor, a school or lender refund appears to be due.
3. The debtor raises a legal defense against repayment (for example, expiration of the statute of limitations, fraud, forgery, or circumstances under which OPE may be prohibited from pursuing collection).
4. The debtor wishes to compromise the amount due, or requests forbearance due to temporary inability to repay. The following restrictions apply to accounts involving compromises:

-- compromise settlements are not to be offered as the first option in collection negotiations;
-- under no circumstances is the collector to raise the issue of compromise;
-- contractor personnel are only permitted to discuss compromise settlements as negotiations progress on the debtor's ability to pay;
-- documentation must contain, without exception, written rationale for the compromise settlement.
-- compromise settlements are to be negotiated on accrued interest only, except for loans which meet the following criteria:

(1) DEFAULTED LOANS ON WHICH THE APPLICABLE STATUTE OF LIMITATIONS HAS EXPIRED -- limited to interest plus a portion of principal. Under no circumstances are collectors to raise the issue of the Statute of Limitations.

(2) DEFAULTED LOANS WHICH ARISE FROM SCHOOLS IDENTIFIED BY THE DEPARTMENT OF EDUCATION AS "PROBLEM SCHOOLS" -- limited to interest plus a minimal portion of principal on loans made by schools which closed during the student's enrollment, schools which have been involved in Federal litigation cases in past years, and cases in which the borrower has a reasonable defense against the school. The respective ED COTR (or designated on-site monitor) will judge the validity of the defense.

(3) DEFAULTED LOANS WHICH ARE JUDGED ACCEPTABLE FOR COMPROMISE UNDER THE FEDERAL CLAIMS AND COLLECTIONS - JOINT STANDARDS -PUBLISHED BY THE DEPARTMENT OF JUSTICE AND THE GENERAL ACCOUNTING OFFICE -- limited to interest plus some portion of principal as applicable under the Joint Standards.

FINAL APPROVAL FOR ALL COMPROMISES RESIDES WITH THE DEPARTMENT OF EDUCATION.

Under no circumstances is the contractor to adjust the outstanding balance of an account for any reason without OPE approval. Specifically, the contractor shall not arrange compromise settlements without first referring the matter to OPE along with the appropriate documentation and a recommendation as to the amount which should be compromised.

ED will inform the contractor of the appropriate action to be taken. In all cases, the contractor shall be required to obtain secured payment instruments (certified checks, cashier's checks, etc.) within thirty (30) day on all compromise settlements or the agreement is voided. The contractor is responsible for the return of personal checks to the debtor where personal checks are submitted under compromise agreements.

3.1.2.2.3 Resolution of Complaints

The contractor shall provide, within five (5) working days, information to the COTR to resolve complaints of harassment, intimidation, false or misleading representation or unnecessary communications raised by debtors against the contractor's collection practices. The contractor shall inform the debtor in their initial written contact with the debtor of the appropriate ED office with whom a complaint should be filed.

Upon receipt of complaint from the debtor,ED will provide a written summary of the complaint to the contractor within ten (10) working days. The contractor shall, upon such notification, immediately cease collection activity on the account in question, and submit a copy of its collection activity record on the account to the COTR within five (5) days.

Collection activity on the account by the contractor may not be resumed until the problem is resolved. After notification by ED that the complaint has been resolved, the contractor shall take the appropriate action on the account within ten (10) working days. If the contractor receives a complaint from a debtor, a copy of the complaint shall be forwarded immediately to ED, as well as, the contractor's response.

3.1.2.2.4 Documentation of Collection Activity

The contractor shall record all collection activity (skip-trace attempts, written and verbal contacts with the debtor or their representative, payment information, and other pertinent data) taken on each account. This information may be compiled and stored in computer form to the extent practical with the assurance that it can be easily converted to hard-copy on demand (within 24 hours), or recorded on the contractor's hard-copy worksheet.

The contractor shall update its computer records of each account on a daily basis to show name and address changes and any other data element changes. The contractor shall provide ED, on a monthly basis, a magnetic tape of the name and address changes recorded during the prior month in the format shown in Appendix VII.

3.1.2.2.5 Billing Debtors

ED will provide the contractor with a magnetic "Account Balancing Tape" listing each account's current principal and accrued interest once each month (Appendix VIII). The contractor shall prepare and mail computer-generated bills on all accounts on which at least one payment has been received and subsequent payments have been negotiated, using the updated account balance information provided by ED. (Note: The contractor shall calculate up-to-date accrued interest information from their data base on at least a monthly schedule. At no time may the contractor's records, or the individual collector records, reflect an account balance that is more than thirty days old.

The contractor shall use contractor-prepared bills in a format approved by the Project Officer which show at least that information included in ED's bill to debtors (see Appendix IX). The bills shall contain statements explaining that cash repayments are prohibited and that remittances are to be made payable to the Department of Education, and clearly specify the address to which repayments are to be sent.

The contractor shall make a minimum of three (3) documented, follow-up telephone contacts on all delinquent accounts within no more than twenty (20) working days, in addition to sending at least one (1) delinquency letter. The format of letters used for this purpose must also be approved by the ED COTR.

3.1.2.3 Receipt and Processing of Repayments

The contractor shall receive and process repayments, enter and balance repayment information into a transaction file on the ED computer system using contractor-supplied computer terminals and associated communications and ED-supplied programs. The equipment necessary to perform this function includes:

-- Full Screen driven Terminal/Printer (low speed) compatable with an IBM 3270 which are capable of operating at 9600 baud in a half or full duplex mode.

The contractor shall supply (for each terminal) telephone service (line plus instrument) to the area code and exchange prefix access to ED's contracted system support.

The contractor shall ensure the security of monies received under this contract. There shall be a secure, limited-access, fire-proof safe on the premises of the contractor office in the contract-designated city to hold repayments overnight, for the weekend, or during any other time a deposit cannot be made promptly. All repayments shall be processed by the contractor at the contract-designated city, without regard to the location of the collection function. Under no circumstances will the contractor be allowed to receive and process repayments at any location other than the contract-designated city.

If the repayment processing, bookeeping and/or collection functions are handled in the same building, the contractor shall insure that these functions are kept separate and distinct. Therefore, due to the separation of these functions, the repayment processing area must be off-limits to all personnel other than those involved in this function.

3.1.2.3.1 Receipt of Repayments

The contractor shall provide two lockboxes to receive repayments (one for FISL repayments only, and one for NDSL repayments only) at a U.S. Post Office located in the contract-designated city. The contractor shall pick-up repayments received at these lockboxes at least once each working day.

Whenever a debtor mistakenly sends the repayment to some location other than the designated U.S. Post Office lockbox, the contractor shall immediately send a form letter, approved by the Project Officer, to the debtor advising him of the correct address for sending repayments.

3.1.2.3.2 Processing of Repayments

The contractor shall separately process FISL and NDSL repayments upon receipt as follows:

Non-Computer System Related

-- Endorse the repayment instruments immediately upon receipt using the endorsement format provided by ED;

-- If necessary, identify the repayment instrument with sufficient information (legible SSN, program name, etc.) from extraneous correspondence to allow for future identification of the instrument;

-- Segregate and retain in the contractor's safe all post-dated checks;

-- Forward to the COTR all lender and school refund checks erroneously received by the contractor;

-- Return to the debtor any personal checks received on accounts where a compromise agreement has been negotiated and approved by ED;

-- Return to the debtor any conditionally endorsed payment instruments which does not pay the account in full;

-- Establish a total for the repayments;

-- Make two copies of each repayment instrument;

-- Total each set of copies and verify the totals against the established total;

-- Obtain a "Receipt Schedule Number(s)" (RSN) from OPE for the day's receipts. Inform OPE of the total dollar amount of receipts for each RSN. ED will enter each RSN released to the contractor and the associated dollar receipts into the ED computer system. This entry will create a summary level record which must balance with the total of the individual repayments entered into OPE's transaction file by the contractor;

-- Prepare a Deposit Ticket listing all instruments to be deposited. The Deposit Ticket forms will be supplied by ED;

-- Deposit (by personal delivery or insured courier service) the repayment instruments within twenty-four (24) hours of receipt (or the next work day if received after banking hours on a Friday) in the Federal Reserve Bank located in the contract-designated city, along with the completed Deposit Ticket(s). Whenever deposit is delayed, repayment instruments shall be retained in the contractor's secure, limited-access, fire-proof safe.

Computer System Related

The contractor shall perform the following steps to input repayment information into the ED system using contractor-supplied equipment and ED-supplied programs:

-- The contractor shall separate the repayment instrument copies into two categories, regular payments and unidentified payments. Regular payments are those receipts which are identifiable and can be posted to the proper debtor account. Unidentified payments are those receipts which cannot be posted to the proper account because of lack of information. The two categories can then be further broken down into a series of batches if necessary.

-- All repayment activity shall then be entered into a transaction file on the ED computer system and balanced within three (3) working days of receipt of repayment, as follows:

(1) Regular payments are entered via a screen program which will write the records out to a transaction file. The information written includes the RSN, batch number, SSN, date of receipt, repayment amount, instrument type, instrument number, and collection type.

(2) Unidentified payments are also entered onto the transaction file via a screen program. The program writes out the same type of record as the regular payment screen, except that other data elements such as remittor name, claim number, loan sequence number and lender number can also be entered, if available. This additional information can assist the contractor in subsequent research and identification activities. The contractor shall also annotate both copies of all unidentified repayment instruments with an "Unidentified" legend.

(3) After all batches of payments (both regular and unidentified) have been entered for the RSN, a balance program is used to match the total dollar amount entered earlier by regional office personnel with the computed totals of detail transactions entered by contractor personnel.

(4) For receipt schedules that do not balance, an error program is used to list the payment information entered on the transaction file. This will assist the contractor in identifying erroneous entries.

(5) When errors are discovered, a correction program is used either to remove or correct an erroneous entry.

(6) When the receipt schedules are balanced on the transaction file, the nightly batch process will post the repayments entered to the corresponding debtor's account on the ED computer system.

(7) Unidentified payments which were entered into the transaction file will be posted to the Suspense file. The contractor must research and identify each of these payments expeditiously as the contractor will not be paid for payments received that are not credited to a specific account assigned to the contractor.

(8) When payments on the Suspense file are identified, the COTR shall be contacted to move the transaction from Suspense and credit it to the Debtor's account.

The contractor shall deliver one set of the copies of the repayment instruments to the ED On-site Monitor daily, along with a paper-tape showing the established total.

ED will provide to the contractor a listing of repayments posted from the transaction file and the suspense file to debtor's accounts, as well as notifications from the Federal Reserve Bank of returned checks (Appendix XII). The Federal Reserve Bank will forward to ED all returned checks received on accounts assigned to the contractor. ED will enter the returned check transaction into the ED computer system and will forward the returned check to the contractor for possible re-deposit. Re-deposit will be limited to those returned checks that are dated within the past three (3) months and the account is still assigned to the contractor.

In addition, ED will prepare and provide to the contractor weekly, a magnetic tape of all the financial transactions posted to debtors' accounts the previous week so that the contractor can update its system.

3.1.3 Phase C -- Close Out: Return of Accounts & Phase-Out

All accounts shall be worked to the level of effort specified in the "Minimum Account Resolution Standards" before they are returned to ED. On a monthly basis and in connection with its magnetic tape of returned accounts, the contractor shall relinquish to ED its complete hard-copy file of account information, including copies of all documents and records of collection activity, whether provided by ED originally, or obtained by the contractor. The contractor must also provide the hard-copy documentation to confirm its recommendation (e.g. death certificate, court documents, proof of cancellation eligibility, etc.) as specified in the "Minimum Account Resolution Standards."

The contractor shall return accounts to the ED in accordance with the time-frames given below. Changes in these time frames can only be made by or with the approval of ED. Accounts shall be returned in batches at intervals no greater than thirty (30) calendar days. Each monthly tape shall be accompanied by a hard-copy alphabetical listing of each account in the batch which shows the debtor's name, SSN and the reason for return.

-- Accounts ineligible for transfer (Section 3.1.2.1.3) shall be returned within thirty (30) calendar days of identification.

-- Any account that has been worked to at least the applicable effort as specified in the "Minimum Account Resolution Standards" shall be returned within thirty days of the completion of the last MARS step, subject to the requirement governing the return of unresolved and delinquent accounts addressed later in this section.

-- Paid in full accounts shall be returned no later than thirty (30) calendar days from the date they reach this status.

-- Accounts being closed on the basis of resolution (death, disability, cancellation in full or discharge through bankruptcy) shall be returned within thirty (30) calendar days after determination of eligibility for such closure has been made.

-- Accounts, determined by the contractor, requiring litigation shall be returned within ten (10) calendar days after compilation of the necessary file information has been completed.

-- Unresolved and Delinquent accounts shall be returned within thirty (30) calendar days of contractor receipt of the "Account Return List -- Unresolved or Delinquent Report" which lists such accounts. For the purposes of this report, "Unresolved" accounts include those accounts on which repayments have not been made within nine (9) months of transfer, with one exception. Again, for the purposes of this report, "Delinquent" accounts include those accounts assigned to the contractor which have become four (4) months delinquent (i.e., accounts which have gone four months since their last repayment was received). The contractor is responsible for the completion of the applicable effort of resolution specified in the "Minimum Account Resolution Standards.")

Finally, the contractor shall accomplish via magnetic tape (format of this tape will be identical to the Monthly Return Accounts Tape with Reason for Return designated as "REQ" - OPE Request) an orderly transfer of all outstanding accounts back to the Project Officer upon expiration of the contract. This process shall begin no later than ninety (90) calendar days prior to the expiration of the contract. It shall be scheduled such that all work on OPE accounts will cease by the last day of the contract.

The contractor will provide for an orderly transfer of all accounts to ED immediately upon effective date of expiration or termination of the contract.

The contractor shall appropriately destroy or dispose of, in a manner which will prevent any further unauthorized disclosures, any records containing personally identifiable information which are not to be returned to ED. The contractor shall erase or otherwise destroy the ED account information contained in the contractor's computer system upon expiration of the contract. If these requirements are not met, the contractor will be liable for criminal penalties as specified in the Privacy Act (Subsection (i)).

3.1.4 Phase D -- Special Requirements

3.1.4.1 Summary of Contractor Computer System Requirements

This section consolidates and summarizes all contractor system support requirements given in this RFP.

The contractor shall establish and maintain computer software which can accept and accommodate data on all ED accounts prior to the first transfer of accounts. The contractor shall update its computer files monthly with information such as name and address changes, interest updates, account location changes and ED-provided updates. These updates must also incorporate data from branch or subcontractor offices used under this contract.

The contractor computer system shall be capable of generating skip-tracing and delinquency letters and bills automatically. The system shall also produce a magnetic tape each month of the name and address changes recorded during the previous month to allow ED to update its system, as well as produce a monthly returned accounts tape.

The contractor shall ensure that the data in its system is used exclusively for collection activities related to ED-transferred accounts. The information shall not be accessed by the contractor in connection with any other collection efforts on the same debtor under another contract.

Finally, the contractor shall supply the equipment specified in Section 3.1.2.3 "Receipt and Processing of Repayments."

3.1.4.2 Pick-up and Delivery of Materials

The contractor shall be responsible for picking up from and delivering to the Project Officer and Contracting Officer all reports, records, magnetic tapes and other materials which are to be exchanged between the contractor and ED under Section F - DELIVERIES AND PERFORMANCE of the contract.

3.1.4.3 Anticipated Delays

The contractor shall be responsible for notifying the Contracting Officer immediately of anticipated delays in providing the services required under this contract.

3.1.4.4 Use of Branch Offices and/or Subcontractors

Given the national character of the FISL and NDSL portfolios, the contractor shall be permitted to use, with specific prior ED approval, its own branch offices or subcontractors to perform skip-tracing and collection activities. However, certain restrictions govern this use. The primary contractor office shall retain control over all accounts at all times, and insure that the branch offices and subcontractors are fully trained, receive all necessary information relative to this contract, and adhere to all requirements of this contract. In particular, branch offices and subcontractors are prohibited from the receipt and processing of repayments under this contract.

All offices, in particular, branch offices and subcontractors shall keep all ED-related information in a secure, restricted location, and shall prohibit its access in connection with any collection activity on the same debtor under any other contract. The contractor shall be capable of updating its system records of every account daily regardless of its location.

Should any problems arise related to the procedures and/or operation of any branch office, the contractor will be held responsible for any failure of that branch/subcontract and resolve such failure in accordance with the terms of Section I - Clause 52.249-8. Any subcontracts in excess of $500,000 must meet, in addition to the above, the requirements of Section I - Clauses 52.244-1 and 52.244-5.

Lastly, the contract-designated contractor office shall be responsible for responding to ED inquiries about any account, regardless of its location, within twenty-four (24) hours.

3.1.4.5 Facilities, Equipment, Supplies and Materials

Except where noted otherwise, the contractor shall obtain its own secure, restricted facilities, equipment, supplies and materials. The contractor shall furnish limited access, private office space on the premises which has the necessary office furniture and telephone lines for the exclusive use of the ED COTR and On-site Monitors.

In addition, the contractor shall provide the capability and supplies to photocopy any documents extracted from ED files.

3.1.4.6 Failure of Contractor to Meet Contract Requirements

Should any contractor fail to meet specific requirements within this contract, ED will either restrict further transfers or terminate the contract immediately.

ED realizes that problems in the day to day operations will arise, however, the continued failure on the part of the contractor to meet the specifics of this contract will result in ED discontinuing transfers of accounts to the contractor (while continuing transfers to other contracts awarded by the Department for collection services) until acceptable corrections have been made by the contractor, or terminating the contract entirely.

SECTION D - PACKAGING AND MARKING

ARTICLE D. 1 - PACKAGING

Preservation, packing and packaging of items for shipment shall be in accordance with commercial practice and adequate for acceptance by common carrier for safe transportation at the most economical rates.

SECTION E - INSPECTION AND ACCEPTANCE

ARTICLE E. 1 - INSPECTION AND ACCEPTANCE

The Contracting Officer or the duly authorized representative will perform inspection and acceptance of materials and services to be provided.

For the purposes of this article the current ED Contracting Officer's Technical Representative (COTR) named in this contract is the authorized representative of the Contracting Officer.

The Federal Government reserves the right to make periodic, unannounced on-site inspections of the contractor office and any branch or subcontractor offices used by the contractor in connection with this contract. The purpose of these inspections will be to assess contractor performance, particularly in the areas of adherence to the "Minimum Account Resolution Standards" and applicable legislation, as well as, the security of collection records and monies received.

On-Site Monitors

The ED COTR will designate representative(s) of the COTR to be full-time on-site monitors at the designated contractor office for the duration of the contract. The function of the on-site monitor(s) is to monitor and observe payment processing, backlogs, receipt and handling of correspondence, and all areas of the contractor collection activity, paying particular attention to contractor compliance with applicable laws and regulations. The on-site monitors will be available to expedite the resolution of those issues which the contractor is prohibited from settling (i.e., compromises, cancellations, etc.). The on-site monitor will also periodically perform on-site reviews of branch and subcontractor offices. The ED on-site monitor is expressly prohibited from supervising contractor employees. The on-site monitor's authority is expressly limited to the duties specifically stated in the contract. The on-site monitors have no authority in those instances requiring action either by the Contracting Officer's Technical Representative as outlined in Article G.1, the Contract Administrator or the Contracting Officer.

SECTION F - DELIVERABLES OR PERFORMANCE

F.1. PERIOD OF PERFORMANCE

The period of performance will be two years from the date of award, with specific performance reviews (CPE and CCE) at four and nine month intervals.

FISL and NDSL accounts will be assigned to the contractor throughout the contract in accordance with the Work Statement. All collection activities on these assigned accounts shall be completed during this contract period. At the expiration of the contract all ED accounts in the contractor's possession shall be returned to the Government, and commissions on eligible dollars collected shall cease.

At the Government's option, based on contractor performance on prior transfers, additional accounts may be assigned to the contractor during the second and third years of the contract. If additional accounts are to be assigned after the first year of the contract, the Government will extend the term of the contract twelve (12) additional months. The contract may, at the Government's option, be extended another twelve (12) months if accounts are to be transferred during the third year. The period of performance of this contract, in any event, will not extend beyond four (4) year from the date of award. (See Section H.18)

F.2. CONTRACTOR DELIVERABLES

The contractor's schedule of deliverables is shown below. The contractor shall forward one (1) copy of the deliverables marked with an asterisk (*) and notification of the accomplishment of all other deliverables to the Contracting Officer. The contractor shall also deliver five (5) copies of those deliverables marked with an asterisk (*) and notification of the accomplishment of all other deliverables to the COTR.

Requirement	Time-Frame from Contract Award
Establishment of an operational system. (Section 3.1.1.1)	In place within ninety (90) days.
Establishment and testing of communications between the contractor's terminals and OPE's system. (Section 3.1.1.1)	In place within ninety (90) days.
Establishment of procedures to transfer accounts, reports, etc. between contractor and OPE. (Section 3.1.1.1)	Completed within three months.
Final version of a collections training manual and a Standard Operating Procedures Manual. (Section 3.1.1.1)*	Completed within three months.
Final version of a quality control manual outlining the quality control procedures. (Section 3.1.1.3)*	Completed within three months.
Lockboxes rented at U.S. Post Office. (Section 3.1.2.3.1)	Within three months.

Begin collection activities. (Section 3.1.2.2)	Upon receipt of first accounts.
Return of accounts with complete files in batches accompanied by a hard-copy alphabetical listing.	In conjunction with each Return Accounts Tape.

PERIODIC CONTRACTOR DELIVERABLES

The contractor shall furnish to the COTR (or representative) on a daily basis, one set of the copies of the repayment instruments along with a paper-tape showing the established total. (Section 3.1.2.3.2).

The contractor shall furnish to the COTR on at least a monthly basis, the following deliverables:

-- Quality Control Report,
-- Magnetic Tape of Name and Address Changes,
-- Magnetic Return Account Tape,
-- Management and Fiscal Reports (See Below),

The contractor shall furnish to the COTR on at least a monthly basis, a listing of all contractor employees by name and social security number. This listing will be matched against the Department's defaulted student loan data base.

Management and Fiscal Reports

The contractor shall produce, on at least an end of month schedule, management and fiscal reports designed to monitor contract performance. At a minimun, the reports should contain those problems which have been, or need to be, resolved and discuss the work (including manpower requirements) performed over the month just completed and projected for next month. The summary reports should also accurately reflect the status of the collection inventory handled by the contractor and must include, but is not limited to, account information on the following categories on a per month, year to date, and contract award to date breakdown:

Accounts Paid-In-Full
Accounts Compromised
Accounts Currently In-Repayment (0-29 Days)
Accounts 30-59 Days Delinquent
Accounts 60-119 Days Delinquent
Accounts 120 or More Days Delinquent

These reports should also include the number of complaints received, the volume of correspondence received and mailed, the number and dollar value of returned checks, and other information that may be requested by the COTR. These reports shall be considered a part of the contractor's measuring system for its quality control plan.

It should also be noted that the Federal Government will conduct periodic quality assurance activities by reviewing samples of accounts worked by the contractor and verifying that required collection actions have in fact been taken.

On a monthly basis, the contractor shall furnish the ED Contracting Officer with a report that shall include, but is not limited to the following items:

-- Information on Dollars Collected (Current Month and Year To Date);
-- Dates and Identifying Information regarding all documents transferred to the COTR during the prior month;
-- Information on any Problems Incurred by the Contractor during the month and/or those corrected during the month; and
-- Other Information that needs to brought to the attention of the Contracting Officer.

F.3. Government Furnished Material

ED will forward to the designated contractor site, the following:

-- A magnetic Transfer Tape, a magnetic Student Account Sheet Tape and a hard-copy Transfer Report which identify each account that is being transferred to the contractor in conjunction with each transfer of accounts (Appendices IV and V).

-- A daily hard-copy Financial Transactions Posted Report showing all repayments and returned checks posted that day on the OPE computer from the transaction file and the suspense file on accounts assigned to the contractor.

-- A weekly magnetic Financial Transactions Posted Tape of all financial transactions posted to the ED computer the previous week on accounts assigned to the contractor.

-- A monthly hard-copy Account Return List -- Unresolved or Delinquent Report identifying each account which remains unresolved nine (9) months after receipt or delinquent for four (4) months.

-- A monthly magnetic Account Balancing Tape which provides current principal and accrued interest information on all accounts assigned to the contractor (Appendix VIII).

-- A monthly hard-copy Collection Agency Commissions Report which shows, by posting date, the net dollars collected and the commissions due for that month and the associated detail payment listing.

-- Deferment, Cancellation and Permanent and Total Disability Forms.

-- Rate tables from which daily accrued interest can be calculated.

SECTION G - CONTRACT ADMINISTRATION DATA

ARTICLE G. 1 - CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR)

(a) The Contracting Officer's Technical Representative (COTR) is responsible for the technical aspects of the project and technical liaison with the Contractor. The COTR is also responsible for the review and approval of any and all deliverables including reports, and such other responsibilities as may be specified in the contract.

(b) The COTR is not authorized to make any commitments or otherwise obligate the Government or authorize any changes which affect the contract price, terms or conditions. Any contractor requests for changes shall be submitted in writing directly to the Contracting Officer or through the COTR. No such changes shall be made without the written authorization of the Contracting Officer.

(c) The name and address of the COTR is ______________________

____

____

____.

The COTR may be changed by the Government at any time, but notification of the change, including the name and address of the successor COTR, will be provided to the Contractor by the Contracting Officer in writing.

ARTICLE G. 2 - CONTRACT ADMINISTRATOR

The Contractor shall designate one individual to be contacted during the period of the contract for prompt contract administration.

NAME ______________________________________

TELEPHONE ( ) ______________________________

TITLE _____________________________________

ARTICLE G. 3 - INVOICE SUBMISSION

The contractor shall submit the original and three (3) copies of invoices to the Designated Payment Office in accordance with the Payments provisions of this contract. The Designated Payment Office is:

U.S. Department of Education
Assistance Management and Procurement Service
ADPAC Branch, Room 3674, ROB#3
400 Maryland Avenue, S.W.
Washington, D.C. 20202/3326

ARTICLE G. 4 - INVOICE PAYMENT

G.4.1 PROMPT PAYMENT ACT

The Prompt Payment Act (Public Law 97-177, May 21, 1982, 96 Stat. 85, 31 USC 1801) is incorporated herein by reference.

Notwithstanding the Order of Precedence clause (FAR 52.215-18, Section L 20), if there is any inconsistency between the following provisions and any other provisions prevail.

G.4.2 PAYMENT DUE DATE

(a) Payments under this contract will be due on the 30th calendar day after the latter of:

(1) The date of actual receipt of a proper invoice in the office designated to receive the invoice, or

(2) The date the equipment/services are accepted by the Government.

(b) For the purpose of determining the due date for payment and for no other purpose, acceptance* will be deemed to occur on the 30th calendar day after the date of delivery of the equipment/services in accordance with the terms of the contract.

(*Note.—Equipment/service that are subject to the "Standard of Performance" provisions of this contract (Special Provisions E.1) will be accepted in accordance with those provisions.)

(c) If the equipment/services are rejected for failure to conform to the technical requirements of the contract, or for damage in transit or otherwise, the provisions in paragraph (b) of this clause will apply to the new delivery if replacement equipment/services.

(d) The date of the check issued in payment or the date of payment by wire transfer through the Treasury Financial Communications System shall be considered to be the date payment is made.

G.4.3 INTEREST ON OVERDUE PAYMENTS (APRIL 1984)

(a) The Prompt Payment Act, Public Law 97-177 (96 Stat. 85, U. S. C. 1801) is applicable to payments under this contract and requires the payment to Contractor of interest on overdue payments and improperly taken discounts.

(b) Determinations of interest due will be made in accordance with the provisions of the Prompt Payment Act and Office of Management and Budget Circular A-125.

G.4.4 INVOICE REQUIREMENTS (APRIL 1984)

(a) Invoices shall be submitted in an original and 3 copies to the Government office designated in this contract or on the delivery order to receive invoices. To constitute a proper invoice, the invoice must include the following information and/or attached documentation:

(1) Name of the business concern and invoice date.

(2) Contract number, or other authorization for delivery of property or services.

(3) Description, price, and quantity of property and services actually delivered or rendered.

(4) Shipping and payment terms.

(5) Name (where practicable), title, phone number, and complete mailing address of responsible official to whom payment is to be sent. The "remit to" address must correspond to the remittance address in the contract.

(6) Other substantiating documentation or information as required by the contract.

(b) To assist the Government in making timely payments, the Contractor is requested to furnish the following additional information either in the invoice or on an attachment to the invoice:

(1) Date(s) that property was delivered or services rendered,

(2) Serial Numbers of property delivered,

(3) Address where property was delivered or services were rendered,

(4) Credits (if applicable),

(5) Copy of the Contracting Officer's written notification of acceptance following successful completion of the Standard performance period (see Special Provisions E.1).

(6) Contractor's complete remittance or check mailing address.

G.4.5 DISCOUNTS FOR EARLY (PROMPT) PAYMENT

(a) Discounts for early payment will not be considered in the evaluation offers.

(b) Discounts for early payment may be offered either in the original offer or on individual invoices submitted under the resulting contract, and discounts offered will be taken by the Government if payment is made within the discount period specified.

(c) Discounts that are included in offers become a part of the resulting contracts and are binding on the Contractor for all orders placed under the contract. Discounts offered only on individual invoices will be binding on the Contractor only for the particular invoice on which the discount is offered.

(d) The ending date of the discount period will be determined by applying the number of calendar days specified by the Contractor, beginning with the later of:

(1) The date the supplies are deemed to be accepted by the Government, as determined in accordance with the payment terms of this contract, or

(2) The date a proper invoice or voucher is received in the office specified by the Government

(e) The date of the check issued in payment, or the date of payment by wire transfer through the Treasury Financial Communications System, shall be considered to be the date payment is made.

G.4.6 - ADDITIONAL INVOICE AND PAYMENT PROVISIONS

G.4.6.1 INVOICES FOR FULL MONTH

The Contractor shall render invoices for basic monthly charges at the end of the monthly charges for the end of the month for which the charges accrue. (See General Provisions G.4.2, "Payment Due Date" and G.4.4, "Invoice Requirements".)

G.4.6.2 CREDITS

Any credits due the Government may be applied against the Contractor's invoices with appropriate information attached.

G.4.6.3 INVOICES COVERING EXTRA USE

In case of extra maintenance charges, the Contractor shall furnish the Government each month with a form which shall list each machine by type and serial number. The Government shall list the following information for each machine: number of hours of extra maintenance extra maintenance rate applied; and total extra maintenance charges for the month. The Government shall return this form to the Contractor as its authorization to bill.

G.4.6.4 PURCHASE INVOICE AND PAYMENT PROVISION

The Contractor shall be paid, upon submission of proper invoice after completion of a successful performance period. (See Special Provisions E.5.1.14, "Date of Acceptance"; General Provision" G.4, "Payment Due Date"; and General Provision"G.4, "Invoice Requirements'.) For purchase of installed rental equipment, the effective date of purchase is set forth in paragraph I.5.3.

G.4.7 PRICING OF ADJUSTMENTS

When costs are a factor in any determination of contract price adjustment pursuant to the "Changes" clause or any other clauses of this contract, such costs shall be in accordance with the contract cost principles and procedures in Part 31 of the Federal Acquisition Regulation (48 CFR Part 31) in effect on the date of this contract.

G.4.8 METHOD OF PAYMENT

(a) Payments under this contract will be made either by check or by wire transfer through the Treasury Financial Communications System at the option of the Government.

(b) The Contractor shall forward the following information in writing to the Contracting Officer not later than 7 days after receipt of notice of award.

(1) Full name (where practicable), title, phone number, and complete mailing address of responsible officials(s) (i) to whom check payments are to be sent, and (ii) who may be contacted concerning the bank account information requested below.

(2) The following bank account information required to accomplish wire transfers:

(i) Name, address, and telegraphic abbreviation of the receiving financial institution.

(ii) Receiving financial institution's 9-digit American Bankers Association (ABA) identifying number for routing transfer of funds. (Provide this number only if the receiving financial institution has access to the Federal Reserve Communications System.)

(iii) Recipient's name and account number at the receiving financial institution to be credited with the funds.

(iv) If the receiving financial institution does not have access to the Federal Reserve Communication System, provide the name of the correspondent financial institution through which the receiving financial institution receives electronic funds transfer messages. If a correspondent financial institution is specified also provide:

(A) Address and telegraphic abbreviation of the correspondent financial institution.

(B) The correspondent financial institutions's 9-digit ABA identifying number for routing transfer of funds.

(c) Any changes to the information furnished under paragraph (b) of this clause shall be furnished to the Contracting Officer in writing at least 30 days before the effective date of the change. It is the Contractor's responsibility to furnish these changes 30 days before submitting invoices to avoid invoices being returned as improper.

(d) The document furnishing the information required in paragraphs (b) and (c) must be dated and contain the signature, title, and telephone number of the Contractor official authorized to provide it, as well as the Contractor official authorized to provide it, as well as the Contractor's name and contract number. (OMB Control Number 3090-0141).

ARTICLE G. 5 - CONTROL OF PROPERTY IN POSSESSION OF CONTRACTORS

DHEW Publication No. (HEW) (OE) 74-115, dated July 1974 entitled "Control of Property in Possession of Contractors" is attached and made a part of this contract, if applicable.

SECTION H - SPECIAL CONTRACT REQUIREMENTS

ARTICLE H. 1 - ORDER OF PRECEDENCE

In the event of an inconsistency between provisions of this contract, the inconsistency shall be resolved by giving precedence in the following order:

(a) The Special Provisions of this contract (Sections A - H

(b) The General Provisions of this contract (Section I)

(c) The Work Statement

(d) The contractor's proposal as amended.

ARTICLE H. 2 - KEY PERSONNEL

In accordance with the General Provisions Article "Key Personnel", the following key personnel are considered to be essential to the work being performed:

NAME ____

TELEPHONE (___) ____________________________________

TITLE ____

NAME ____

TELEPHONE (___) ________ ________________ __________

TITLE ____

NAME ____

TELEPHONE (___) ____________________________________

TITLE ____

ARTICLE H. 3 - DUAL COMPENSATION

If a project staff member, subcontractor, or consultant is involved in two or more projects, at least one of which is supported by Federal funds, he/she may not be compensated for more than 100 percent of his/her time during any part of the period of dual involvement. That is, an individual is prohibited from receiving double payment for any given period of work.

ARTICLE H. 4 - PROHIBITION AGAINST THE USE OF ED FUNDS TO INFLUENCE LEGISLATION AND APPROPRIATIONS

No part of any funds under this contract shall be used to pay the salary or expenses of any contractor, or agent acting for the contractor, to engage in any activity designed to influence legislation or appropriations pending before the Congress.

ARTICLE H. 5 - PAYMENT OF TRAVEL EXPENSES AND FEES FOR ED EMPLOYEES

The Contractor shall not use any contract funds, or funds from other sources, to pay the travel expenses of, or a fee to, ED employees for lectures, attending program functions, or any other activities in connection with this contract.

ARTICLE H. 6 - POST EMPLOYMENT CONFLICT OF INTEREST

The contractor certifies that in developing a proposal in response to the solicitation for this contract, it has not utilized the services of any former Education Department (ED) employee who, while working for the Government, participated personally and substantially in, or was officially responsible for, the development or drafting of the solicitation for this contract. The contractor further certifies that it did not utilize the services of such an ED employee in assisting or representing the offeror at negotiations for this contract.

ARTICLE H. 7 - AUDIO-VISUAL PRODUCTION

Prior written approval must be obtained from the Contracting Officer for the use of any funds, including subcontracts, for planning and/or production of audio-visual materials (i.e., motion picture films, video-tapes, film strips, slide sets, tape recordings, exhibits, or combinations thereof regardless of intended use.) This clause is applicable only for contemplated use for planning and/or production of audio-visual materials which were not approved at the time of contract award.

ARTICLE H. 8 - PAYMENT OF PRINTING TO BE PERFORMED BY THE GOVERNMENT PRINTING OFFICE

The General Provisions of this contract set forth the Department's policy regarding printing to be performed in order to meet the terms of the contract. Should the services of the Government Printing Office (GPO) be required, the Contractor shall pay the GPO in advance for any printing it performs.

ARTICLE H. 9 - SUSPENSION OF WORK UNDER STOP WORK ORDER

A. The Contracting Officer may at any time, by written order to the Contractor, require the Contractor to stop all, or any part, of the work called for by this contract for a period of ninety (90) days after the order is delivered to the Contractor, and for any further period to which the parties may agree. Any such order shall be specifically identified as a Stop Work Order issued pursuant to this clause. Upon receipt of such an order, the Contractor shall forthwith comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the order during the period of work stoppage. Within a period of ninety (90) days after a stop work order is delivered to the Contractor, or within any extension of that period to which the parties shall have agreed, the Contracting Officer shall either (i) cancel the stop work order, or (ii) terminate the work covered by such order as provided in the Termination Clause(s) of this contract.

B. If a stop work order issued under this clause is canceled or the period of the order or any extension thereof expires, the contractor shall resume work. An equitable adjustment shall be made in the delivery schedule, the estimated cost, the fee if any, or a combination thereof, and in any other provisions of the contract that may be affected and the contract shall be modified in writing accordingly if: (i) the stop work order results in an increase in the time required for, or in the Contractor's cost properly allocable to, the performance of any part of this contract, and (ii) the contractor asserts a claim for such adjustment within thirty (30) days after the end of the period of work stoppage; provided that, if the Contracting Officer decides the facts justify such action, he or she may receive and act upon any such claim asserted at any time prior to final payment under this contract.

C. If a stop work order is not canceled and the work covered by such order is terminated for the convenience of the Government, the reasonable costs resulting from the stop work order shall be allowed in arriving at the termination settlement.

ARTICLE H. 10 - THE PRIVACY ACT

(a) The Contractor agrees to

(1) Comply with the Privacy Act of 1974 (the Act) and the agency rules and regulations issued under the Act in the design, development, or operation of any system of records on individuals to accomplish an agency function when the contract specifically identifies

(i) The systems of records; and

(ii) The design, development, or operation work that the contractor is to perform;

(2) Include the Privacy Act notification contained in this contract in every solicitation and resulting subcontract and in every subcontract awarded without a solicitation, when the work statement in the proposed subcontract requires the design, development, or operation of a system of records on individuals that is subject to the Act; and

(3) Include this clause, including this subparagraph (3), in all subcontracts awarded under this contract which require the design, development, or operation of such a system of records.

(b) In the event of violations of the Act, a civil action may be brought against the agency involved when the violation concerns the design, development, or operation of a system of records on individuals to accomplish an agency function, and criminal penalties may be imposed upon the officers or employees of the agency when the violation concerns the operation of a system of records on individuals to accomplish an agency function. For purposes of the Act, when the contract is for the operation of a system of records on individuals to accomplish an agency function, the Contractor and any employee of the Contractor is considered to be an employee of the agency.

(c) (1) "Operation of a system of records," as used in this clause, means performance of any of the activities associated with maintaining the system of records, including the collection, use, and dissemination of records.

(2) "Record," as used in this clause, means any item, collection, or grouping of information about an individual that is maintained by an agency, including, but not limited to, education, financial transactions, medical history, and criminal or employment history and that contains the person's name, or the identifying number, symbol, or other identifying particular assigned to the individual, such as a fingerprint or voiceprint or a photograph.

(3) "System of records on individuals," as used in this clause means a group of any records under the control of any agency from which information is retrieved by the name of the individual or by some identifying number, symbol, or other identifying particular assigned to the individual.

ARTICLE H. 11 - WOMEN-OWNED BUSINESS CONCERNS SUBCONTRACTING PROGRAM (OVER $500,000 OR $1,000,000 FOR CONSTRUCTION OF ANY PUBLIC FACILITY)

(For all contracts, amendments or modifications expected to exceed $500,000 or in the case of contracts for the construction of any public facility, $1,000,000, which require the General Provision entitled "Utilization of Women-Owned Small Businesses".)

(a) The Contractor agrees to establish and conduct a program which will enable women-owned business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the contractor shall:

(1) Designate a liaison officer who will administer the Contractor's "Women-owned Business Concerns Program."

(2) Provide adequate and timely consideration of the potentialities of known woman-owned business concerns in all "make-or-buy" decisions.

(3) Develop a list of qualified bidders that are women-owned businesses and assure that known women-owned business concerns have an equitable opportunity to compete for subcontracts, particularly by making information on forthcoming opportunities available, by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of women-owned business concerns.

(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of women-owned business concerns; (ii) awards to women-owned businesses on the source list by minority and non-minority women-owned business concerns; and (iii) specific efforts to identify and award contracts to women-owned business concerns.

(5) Include the "Utilization of Women-Owned Business Concerns" clause in subcontracts which offer substantial subcontracting opportunities.

(6) Cooperate in any studies and surveys of the Contractor's women-owned business concerns procedures and practices that the Contracting Officer may from time-to-time conduct.

(7) Submit periodic reports of subcontracting to women-owned business concerns with respect to the records referred to in subparagraph (4) above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

ARTICLE H. 12 - COST ACCOUNTING STANDARDS - NON-DEFENSE CONTRACT

(a) Unless the Cost Accounting Standards Board (CASB) has prescribed rules or regulations exempting the Contractor or this contract from standards, rules, and regulations promulgated pursuant to 50 U.S.C. App. 2168 (Pub. L. 91-379, August 15, 1970), the Contractor, in connection with this contract, shall-

(1) (National Defense Contracts Only) By submission of a Disclosure Statement, disclose in writing the Contractor's cost accounting practices as required by regulations of the CASB. The practices disclosed for this contract shall be the same as the practices currently disclosed and applied on all other contracts and subcontracts being performed by the Contractor and which contain a Cost Accounting Standards (CAS) clause. If the Contractor has notified the Contracting Officer that the Disclosure Statement contains trade secrets and commercial or financial information which is privileged and confidential, the Disclosure Statement shall be protected and shall not be released outside of the Government.

(2) Follow consistently the Contractor's cost accounting practices in accumulating and reporting contract performance cost data concerning this contract. If any change in cost accounting practices is made for the purposes of any contract or subcontract subject to CASB requirements, the change must be applied prospectively to this contract, and the Disclosure Statement must be amended accordingly. If the contract price or cost allowance of this contract is affected by such changes, adjustment shall be made in accordance with subparagraph (a)(4) or (a)(5) below, as appropriate.

(3) Comply with all CAS in effect on the date of award of this contract or, if the Contractor has submitted cost or pricing data, on the date of final agreement on price as shown on the Contractor's signed certificate of current cost or pricing data. The Contractor shall also comply with any CAS which hereafter becomes applicable to a contract or subcontract of the Contractor. Such compliance shall be required prospectively from the date of applicability to such contract or subcontract.

(4) (i) Agree to an equitable adjustment as provided in the Changes clause of this contract if the contract cost is affected by a change which, pursuant to (3) above, the Contractor is required to make to the Contractor's established cost accounting practices.

(ii) Negotiate with the Contracting Officer to determine the terms and conditions under which a change may be made to a cost accounting practice, other than a change made under other provisions of this paragraph 4; provided, that no agreement may be made under this provision that will increase costs paid by the United States.

(iii) When the parties agree to a change to a cost accounting practice, other than a change under (4)(i) above, negotiate an equitable adjustment as provided in the Changes clause of this contract.

(5) Agree to an adjustment of the contract price or cost allowance, as appropriate, if the Contractor or a subcontractor fails to comply with an applicable Cost Accounting Standard or to follow any cost accounting practice consistently and such failure results in any increased costs paid by the United States. Such adjustment shall provide for recovery of the increased costs to the United States together with interest thereon computed at the rate determined by the Secretary of the Treasury pursuant to Pub. L. 92-41, 85 Stat. 97, or 7 percent per annum, whichever is less, from the time the payment by the United States was made to the time the adjustment is effected.

(b) If the parties fail to agree whether the Contractor or a subcontractor has complied with an applicable CAS, rule, or regulation of the CASB and as to any cost adjustment demanded by the United States, such failure to agree shall be a dispute concerning a question of fact within the meaning of the Disputes clause of this contract.

(c) The Contractor shall permit any authorized representatives of the agency head, of the CASB, or of the Comptroller General of the United States to examine and make copies of any documents, papers, or records relating to compliance with the requirements of this clause.

(d) The Contractor shall include in all negotiated subcontracts which the Contractor enters into, the substance of this clause, except paragraph (b), and shall require such inclusion in all other subcontracts, of any tier, including the obligation to comply with all CAS in effect on the subcontract's award date or if the subcontractor has submitted cost or pricing data, on the date of final agreement on price as shown on the subcontractor's signed Certificate of Current Cost or Pricing Data. This requirement shall apply only to negotiated subcontracts in excess of $100,000 where the price negotiated is not based on-

(1) Established catalog or market prices of commercial items sold in substantial quantities to the general public; or

(2) Prices set by law or regulation, and except that the requirement shall not apply to negotiated subcontracts otherwise exempt from the requirement to include a CAS clause by reason of 331.30(b) of Title 4, Code of Federal Regulations (4 CFR 331.30(b)).

NOTE (1): New CAS shall be applicable to both national defense and nondefense CAS-covered contracts upon award of a new national defense CAS-covered contract containing the new Standard. The award of a nondefense CAS-covered contract shall not trigger application of new CAS.

NOTE (2): Subcontractors shall be required to submit their Disclosure Statements to the Contractor. However, If a subcontractor has previously submitted its Disclosure Statement to a Government Administrative Contracting Officer (ACO), it may satisfy that requirement by certifying to the Contractor the date of the Statement and the address of the ACO.

NOTE (3) In any case where a subcontractor determines that the Disclosure Statement information is privileged and confidential and declines to provide it to the Contractor or higher tier subcontractor, the Contractor may authorize direct submission of that subcontrator's Disclosure Statement to the same Government offices to which the Contractor was required to make submission of its Disclosure Statement. Such authorization shall in no way relieve the Contractor of liability as provided in paragraph (a)(5) of this clause. In view of the foregoing and since the contract may be subject to adjustment under this clause by reason of any failure to comply with rules, regulations, and Standards of the CASB in connection which covered subcontracts, it is expected that the Contractor may wish to include a clause in each such subcontract requiring the subcontractor to appropriately indemnify the Contractor. However, the inclusion of such a clause and the terms thereof are matters for negotiation and agreement between the Contractor and the subcontractor, provided that they do not conflict with the duties of the Contractor under its contract with the Government. It is also expected that any subcontractor subject to such indemnification will generally require substantially similar indemnification to be submitted by its subcontractors.

NOTE (4): If the subcontractor is a business unit which, pursuant to 4 CFR 332 is entitled to elect modified contract coverage and to follow Standards 401 and 402, the clause at 52.230-5, "Disclosure and Consistency of Cost Accounting Practices," of the Federal Acquisition Regulation shall be inserted in lieu of this clause.

NOTE (5): The terms defined in 4 CFR 331.20 shall have the same meanings herein. As there defined, "negotiated subcontract" means any subcontract except a firm-fixed-price subcontract made by a Contractor or subcontractor after receiving offers from at least two persons not associated with each other or with such Contractor or subcontractor, providing (1) the solicitation to all competitors is identical, (2) price is the only consideration in selecting the subcontractor from among the competitors solicited, and (3) the lowest offer received in compliance with the solicitation from among those solicited is accepted.

ARTICLE H. 13 - ADMINISTRATION OF COST ACCOUNTING STANDARDS

For the purpose of administering the Cost Accounting Standards (CAS) requirements under this contract, the Contractor shall take steps outlined in (a) through (f) below:

(a) Submit to the cognizant Contracting Officer a description of any accounting change, the potential impact of the change on contracts containing a CAS clause, and if not obviously immaterial, a general dollar magnitude cost impact analysis of the change which displays the potential shift of costs between CAS-covered contracts by contract type (i.e., firm-fixed price, incentive, cost-plus-fixed-fee, etc.) and other contractor business activity. As related to CAS-covered contracts, the analysis should display the potential impact of funds of the various Agencies/Departments (i.e., Department of Energy, National Aeronautics and Space Administration, Army, Navy, Air Force, other Department of Defense, other Government) as follows:

(1) For any change in cost accounting practices required to comply with a new CAS in accordance with paragraphs (a)(3) and (a)(4)(i) of the CAS clause, within 60 days (or such other date as may be mutually agreed to) after award of a contract requiring this change.

(2) For any change in cost accounting practices proposed in accordance with paragraph (a)(4)(ii) or (a)(4)(iii) of the CAS clause or with paragraph (a)(3) or (a)(5) of the Disclosure and Consistency of Cost Accounting Practices clause, not less than 60 days (or such other date as may be mutually agreed to) before the effective date of the proposed change.

(3) For any failure to comply with an applicable CAS or to follow a disclosed practice as contemplated by paragraph (a)(5) of the CAS clause or by paragraph (a)(4) of the Disclosure and Consistency of Cost Accounting Practices clause, within 60 days (or such other date as may be mutually agreed to) after the date of agreement of noncompliance by the Contractor.

(b) Submit a cost impact proposal in the form and manner specified by the cognizant Contracting Officer within 60 days (or such other date as may be mutually agreed to) after the date of determination of the adequacy and compliance of a change submitted pursuant to (a) above. If the above proposal is not submitted within the specified time, or any extension granted by the cognizant Contracting Officer, an amount not to exceed 10 percent of each payment made after that date may be withheld until such time as a proposal has been provided in the form and manner specified by the cognizant Contracting Officer.

(c) Agree to appropriate contract and subcontract amendments to reflect adjustments established in accordance with paragraphs (a)(4) and (a)(5) of the CAS clause or with paragraphs (a)(3), (a)(4) or (a)(5) of the Disclosure and Consistency of Cost Accounting Practices clause.

(d) For all subcontracts subject either to the CAS clause or to the Disclosure and Consistency of Cost Accounting Practices clause-

(1) So state in the body of the subcontract, in the letter of award, or in both (self-deleting clauses shall not be used); and

(2) Include the substance of this clause in all negotiated subcontracts. In addition, within 30 days after award of the subcontract, submit the followng information to the Contractor's cognizant contract administration office for transmittal to the contract administration office cognizant of the subcontractor's facility:

(i) Subcontractor's name and subcontract number.

(ii) Dollar amount and date of award.

(iii) Name of Contractor making the award.

(iv) Any changes the subcontractor has made or proposes to make to accounting practices that affect prime contracts or subcontracts containing the CAS clause or Disclosure and Consistency of Cost Accounting Practices clause, unless these changes have already been reported. If award of the subcontract results in making one or more CAS effective for the first time, this fact shall also be reported.

(e) Notify the Contracting Officer in writing of any adjustments required to subcontracts under this contract and agree to an adjustment, based on them, to this contract's price or estimated cost and fee. This notice is due within 30 days after proposed subcontract adjustments are received and shall include a proposal for adjusting the higher tier subcontract or the prime contract appropriately.

(f) For subcontracts containing the CAS clause, require the subcontractor to comply with all Standards in effect on the date of award or of final agreement on price, as shown on the subcontractor's signed Certificate of Current Cost or Pricing Data, whichever is earlier.

ARTICLE H. 14 - DISCLOSURE AND CONSISTENCY OF COST ACCOUNTING PRACTICES

(a) The Contractor, in connection with this contract, shall -
(1) Comply with the requirements of 4 CFR Parts 401, Consistency in Estimating, Accumulating, and Reporting Costs, and 402, Consistency in Allocating Costs Incurred for the Same Purpose, in effect on the date of award of this contract.
(2) (National Defense Contracts Only) If it is a business unit of a company required to submit a Disclosure Statement, disclose in writing its cost accounting practices as required by regulations of the Cost Accounting Standards Board (CASB). If the Contractor has notified the Contracting Officer that the Disclosure Statement contains trade secrets and commercial or financial information which is privileged and confidential, the Disclosure Statement shall be protected and shall not be released outside of the Government.
NOTE (1): Subcontractors shall be required to submit their Disclosure Statements to the Contractor. However, if a subcontractor has previously submitted its Disclosure Statement to a Government Administrative Contracting Officer (ACO), it may satisfy that requirement by certifying to the Contractor the date of the Statement and the address of the Contracting Officer.
NOTE (2): In any case where a subcontractor determines that the Disclosure Statement Information is privileged and confidential and declines to provide it to the Contractor or higher tier subcontractor, the Contractor may authorize direct submission of the subcontractor's Disclosure Statement to the same Government offices to which the Contractor was required to make submission of its Disclosure Statement. Such authorization shall in no way relieve the Contractor of liability if it or a subcontractor fails to comply with an applicable Cost Accounting Standard (CAS) or to follow any practice disclosed pursuant to this paragraph and such failure results in any increased costs paid by the United States. In view of the foregoing and since the contract may be subject to adjustment under this clause by reason of any failure to comply with rules, regulations, and Standards of the CASB in connection with covered subcontracts, it is expected that the Contractor may wish to include a clause in each such subcontract requiring the subcontractor to appropriately indemnify the Contractor. However, the inclusion of such a clause and the terms thereof are matters for negotiation and agreement between the Contractor and subcontractor, provided that they do not conflict with the duties of the Contractor under its contract with the Government. It is also expected that any subcontractor subject to such indemnification will generally require substantially similar indemnification to be submitted by its subcontractors.
NOTE (3): The terms defined in 4 CFR 331.20 shall have the same meanings in this clause. As there defined, "negotiated subcontract" means any subcontract except a firm-fixed price subcontract made by a Contractor or subcontractor after receiving offers from at least two persons not associated with each other or such Contractor or subcontractor, providing (1)

the solicitation to all competitors is identical, (2) price is the only consideration in selecting the subcontractor from among the competitors solicited, and (3) the lowest offer received in compliance with the solicitation from among those solicited is accepted.

(3)(i) Follow consistently the Contractor's cost accounting practices. A change to such practices may be proposed, however, by either the Government or the Contractor, and the Contractor agrees to negotiate with the Contracting Officer the terms and conditions under which a change may be made. After the terms and conditions under which the change is to be made have been agreed to, the change must be applied prospectively to this contract, and the Disclosure Statement, if affected, must be amended accordingly.

(ii) The Contractor shall, when the parties agree to a change to a cost accounting practice and the Contracting Officer has made the finding required in 332.51 of the CASB's regulations, negotiate an equitable adjustment as provided in the Changes clause of this contract. In the absence of the required finding, no agreement may be made under this contract clause that will increase costs paid by the United States.

(4) Agree to an adjustment of the contract price or cost allowance, as appropriate, if the Contractor or a subcontractor fails to comply with the applicable CAS or to follow any cost accounting practice, and such failure results in any increased costs paid by the United States. Such adjustment shall provide for recovery of the increased costs to the United States together with interest thereon computed at the rate determined by the Secretary of the Treasury pursuant to Pub. L. 92-41, 85 Stat. 97, or 7 percent per annum, whichever is less, from the time the payment by the United States was made to the time the adjustment is effected.

(b) If the parties fail to agree whether the Contractor has complied with an applicable CAS, rule, or regulation of the CASB and as to any cost adjustment demanded by the United States, such failure to agree shall be a dispute within the meaning of the Disputes clause of this contract.

(c) The Contractor shall permit any authorized representatives of the agency head, of the CASB, or of the Comptroller General of the United States to examine and make copies of any documents, papers, and records relating to compliance with the requirements of this clause.

(d) The Contractor shall include in all negotiated subcontracts, which the Contractor enters into, the substance of this clause, except paragraph (b), and shall require such inclusion in all other subcontracts of any tier, except that -

(1) If the subcontract is awarded to a business unit which pursuant to Part 331 is required to follow all CAS, the clause entitiled "Cost Accounting Standards," set forth in 331.50 of the CASB's regulations shall be inserted in lieu of this clause; or

(2) This requirement shall apply only to negotiated subcontracts in excess of $100,000 where the price negotiated is not based on

(i) Established catalog or market prices of commercial items sold in substantial quantities to the general public; or

(ii) Price set by law or regulations.
(3) The requirement shall not apply to negotiated subcontracts otherwise exempt from the requirement to include a CAS clause by reason of 331.30(b) of the CASB's regulations.

ARTICLE H. 15 - GENERAL PROVISIONS

The general provisions entitled "General Provisions for Fixed Price Service Contract" as detailed under Section I herein, are made a part of this contract.

ARTICLE H. 16 - INTEREST ON OVERDUE PAYMENTS (APR 1984)

(a) The Prompt Payment Act, Public Law 97-177 (96 Stat. 85, 31 U.S.C. 1801) is applicable to payments under this contract and requires the payment to contractors of interest on overdue payments and improperly taken discounts.

(b) Determinations of interest due will be made in accordance with the provisions of the Prompt Payment Act and Office of Management and Budget Circular A-125.

ARTICLE H. 17 - RIGHTS IN DATA (APR 1984)

(a) Subject Data. As used in this clause, the term "Subject Data" means writings, sound recordings, pictorial reproductions, drawings, designs, or other graphic representations, procedural manuals, forms, diagrams, workflow charts, equipment descriptions, data files and data processing or computer programs, and work of any similar nature (whether or not copyrighted or copyrightable) which are specified to be delivered under this contract. The term does not include financial reports, cost analyses, and similar information incidental to contract administration.

(b) Government rights. Subject only to the provisions of (c) below, the Government may use, duplicate or disclose in any manner, and for any purpose whatsoever, and have or permit others to do so, all Subject Data delivered under this contract.

(c) License to copyrighted data. In addition to the Government rights as provided in (b) above with respect to any Subject Data which may be copyrighted, the Contractor agrees to and does hereby grant to the Government a royalty-free, nonexclusive, and irrevocable license throughout the world to use, duplicate or dispose of such data in any manner and for any purpose whatsoever, and to have or permit others to do so; Provided, however, that such license shall be only to the extent that the Contractor now has, or prior to completion or final settlement of this contract may acquire, the right to grant such license without becoming liable to pay compensation to others solely because of such grant.

(d) Relation to patents. Nothing contained in this clause shall imply a license to the Government under any patent to be construed as affecting the scope of any license or other right otherwise granted to the Government under any patent.

(e) Marking and identification. The Contractor shall mark all Subject Data with the number of this contract and the name and address of the contractor or subcontractor who generated the data. The Contractor shall not affix any restrictive markings upon any Subject Data, and if such markings are affixed, the Government shall have the right at any time to modify, remove, obliterate, or ignore any such markings.

(f) Subcontractor data. Whenever any Subject Data is to be obtained from a subcontractor under this contract, the Contractor shall use this same clause in the subcontract, without alternation, and no other clause shall be used to enlarge or diminish the Government's rights in the subcontractor Subject Data.

(g) Deferred ordering and delivery of data. the Government shall have the right to order, at any time during the performance of this contract, or within two years from either acceptance of all items (other than data) to be delivered under this contract or termination of this contract, whichever is later, any Subject Data and any data not called for in the schedule of this contract but generated in performance of the contract, and the Contractor shall promptly prepare and deliver such data as is ordered. If the principal investigator is no longer associated with the Contractor, the Contractor shall exercise its best efforts to prepare and deliver such data as is ordered. The Government's right to use data delivered pursuant to this paragraph (g) shall be the same as the rights in Subject Data as provided in (b) above. The Contractor shall be relieved of the obligation to furnish data pertaining to an item obtained from a subcontractor upon the expiration of two years from the date it accepts such items. When data, other than Subject Data, is delivered pursuant to this paragraph (g), payment shall be made, by equitable adjustment or otherwise, for converting the data into the prescribed form, reproducing it or preparing it for delivery.

ARTICLE H.18 .- OPTION FOR INCREASED QUANTITY AND TO EXTEND THE TERM OF THE CONTRACT.

(1) At its option, the Government may increase the quantity of accounts transmitted to the contractor by any amount at the prices specified in Article B.1. at any time during the contract.

(2) If the Government intends to exercise the option to assign additional accounts to the contractor during either the second year of this contract (or the third year of the contract if the first option period is exercised), then the following option to extend the term of the contract will be exercised.

(a) This contract may be extended for two additional twelve month periods at the option of the Government, by the Contracting Officer giving written notice of the Government's exercise of such option prior to the end of the first contract year (365 days after contract award) for Option I and prior to the end of the second contract year (730 days after contract award) for Option II: Provided, that such notice shall have no effect if given less than thirty (30) days prior to the last day of the first contract year for Option I and thirty (30) days prior to the last day of the second contract year for Option II unless the Contracting Officer has given preliminary written notice of an intent to exercise such option at least thirty (30) days prior to the last day of the first contract year for Option I and thirty (30) days prior to the last day of the second contract year (such preliminary notice shall not be construed as an exercise of the Option, and will not bind the Government to exercise the option). If the Government exercises such option, the contract as extended shall be deemed to include this option provision however, that the total duration of this contract including the exercise of any options under this clause, shall not exceed 48 months.

(3) The Government reserves the right to negotiate downward the commission rate for any optional quantities awarded under this contract.

(4) The contractor is expressly advised that its performance under this contract will be considered a factor in the Government's determination to exercise the options pursuant to this article. (Article H. .)

(5) This option article shall be exercised unilaterally by the Government Contracting Officer.

ARTICLE H. 19 - AUTOMATED DATA PROCESSING (ADP) SYSTEM SECURITY REQUIREMENTS

The Contractor shall comply with the ADP System Security requirements set forth in:

A. The Statement of Work of this contract;

B. Office of Management and Budget (OMB) Circular No. A-71, Transmittal Memorandum No. 1, "Security of

Federal Automated Information Systems," dated 7/27/78;

C. The Privacy Act of 1974 (P.L. 93-579, U.S.C. 552a);

D. Applicable portions of ED ADP Systems Security Manual (Draft); and

E. "ADP Personnel Security," of the ED, Office of Inspector General, Personnel and Document Security Manual.

The Contractor may obtain copies of the documents referenced in B. - E., above by contacting the System Security Specialist at the following address:

U. S. Department of Education
Office of Information Resources Management
Policy and Oversight Branch
400 Maryland Avenue, S.W., Room 4074, Switzer Building
Washington, D.C. 20202/2415

Telephone: (202) 732-1834

The Contractor shall include this provision in any subcontract(s) awarded pursuant to this contract.

ARTICLE H. 20 - ORGANIZATIONAL CONFLICTS OF INTEREST (APR 1984)

(a) Purpose. The primary purpose of this article is to aid in ensuring that the Contractor (1) is not biased because of its past, present, or currently planned interests (financial, contractual, organizational, or otherwise) which relate to the work under this contract, and (2) does not obtain any unfair competitive advantage over other parties by virtue of its performance of this contract.

(b) Scope. The restrictions required by FAR 9.5 shall apply to performance or participation by the Contractor and any of its affiliates or their successors in interest (hereinafter collectively referred to as "contractor") in the activities covered by FAR 9.5 as a prime contractor, subcontractor, cosponsor, joint venturer, consultant, or in any similar capacity.

(c) The Contractor warrants that, it has complied with the Department of Education certification requirement in SECTION K, ARTICLE K. 19, and to the best of the Contractor's knowledge and belief, there are no relevant factors or circumstances which could give rise to an organizational conflict of interest, as defined in FAR Subpart 9.5, or that the Contractor has disclosed all such relevant information.

(d) The Contractor agrees that if any actual or potential organizational conflict of interest is discovered after award, the Contractor will make a full disclosure in writing to the Contracting Officer. This disclosure shall include a description of actions which the Contractor has taken or proposes to take, after consultation with the Contracting Officer, to avoid, mitigate, or neutralize the actual or potential conflict.

(e) Prior to a contract modification when the statement of work is modified to add new work, the period of performance is significantly increased, a task order is issued or the parties to the contract are changed, the Department will request and the Contractor is required to submit either an organizational conflict of interest disclosure or representation or an update of the previously submitted disclosure or representation.

(f) Remedies. ED may terminate this contract for convenience, in whole or in part, if it deems such termination necessary to avoid an organizational conflict of interest. If the Contractor was aware of a potential organizational conflict of interest prior to award or discovered an actual potential conflict of interest after award and did not disclose or misrepresented relevant information to the Contracting Officer, the Government may terminate the contract for default, debar the Contractor from Government contracting, or pursue such other remedies as may be permitted by law or this contract.

(g) The Contractor further agrees to insert in any subcontract at any tier hereunder, including consultant agreements, provisions which shall conform substantially to the language of this clause, including this paragraph (g).

Article H.21.- Contractor Performance Evaluation

This section deals with the types and frequency of contractor evaluations that the Department of Education plans to perform during this contract's period of performance. For all evaluations, the contractor shall be required to provide individual account records.

Contract Implementation Evaluation (CIE)

On approximately the 120th day of the contract (30 days after the initial transfer of accounts), ED will perform a Contract Implementation Evaluation (CIE) to assess the handling of the first transfer of accounts, system related operations, interface between the contractor's computer system(s) and the ED accounts receivables system, and administrative interface between the contractors and the ED Project Officer and staff.

If results of this CIE are satisfactory, ED will make additional transfers of accounts to each contractor on approximately days 150, 210, and 270 after contract award.

Competitive Performance Evaluation (CPE)

Nine (9) months after the contract award, ED will conduct the first Compettititve Performance Evaluation (CPE) measuring the respective success of each of the contractors responsible for a particular ED regional collection center's portfolio.

The CPE, an in-depth evaluation, will be conducted to determine the adequacy of the contractors' performance on all accounts transferred. At this time, based on the results of this evaluation, each contractor may receive additional accounts during the second year of the contract. If additional transfers are warranted, accounts will be transferred to contractors in increments predicated on the results of the CPE.

The criteria to be applied equally to each contractor by ED in making its determination to transfer additional accounts are as follows:

-- **DOLLAR RECOVERY** - analysis of dollars collected versus average daily balance of accounts on hand as a share of the total dollars collected versus the total average daily balance of accounts placed with private agencies; CPE Value 50 Points.

-- **CONVERSIONS TO REPAYMENT** - number and value of accounts converted to satisfactory repayment schedules (repayment received within last 60 days) as a share of all private agency conversions to repayment; CPE Value 20 Points.

-- **ADMINISTRATIVE RESOLUTIONS** - volume and quality of accounts returned for non-cash resolution (death, disability and bankruptcy) as a share of all private agency non-cash resolutions; CPE Value 15 Points.

-- **LITIGATION PREPARATIONS** - volume and quality of accounts prepared and returned for litigation as a share of all private agency litigation preparations; CPE Value 15 Points.

Thereafter, CPEs will be conducted every six (6) months, in order that the Department may keep up with changes in individual contractor's performance.

Contract Continuation Evaluation (CCE)

At the end of the first year of the contract (nine months after the initial transfer), a Contract Continuation Evaluation (CCE) will be performed. This analysis, while incorporating all of the elements of the CPE, will also address contractor performance in the following areas:

-- Adherence to applicable laws:

-- The number and types of valid, documented complaints received from debtors;

-- Adherence to minimum collection activity requirements;

-- Submission of timely reports, tapes and other materials due the Federal Government;

-- Security of Federal money and timeliness of deposits;

-- Nature and gravity of contract violations;

At this time, ED will make its determination to exercise the first option year for each of the contracts awarded under this solicitation.

The CCE will be conducted approximately every nine (9) months to determine if a contractor's performance continues to meet the Department's expectations.

PART II - CONTRACT CLAUSES

SECTION I - CONTRACT CLAUSES

This contract incorporates the following clauses by reference with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

GENERAL PROVISIONS FOR A NEGOTIATED FIXED-PRICE CONTRACT

REQUIRED

I. FEDERAL ACQUISITION REGULATION (FAR) (48 CFR CHAPTER 1) CLAUSES INCORPORATED BY REFERENCE.

No.	FAR Clause No.	Title and Date
1.	52.203-1	Officials Not to Benefit (APRIL, 1984)
2.	52.203-3	Gratuities (APRIL, 1984)
3.	52.203-5	Covenant Against Contingent Fees (APRIL 1984)
4.	52.212-8	Priorities, Allocations and Allotments (APRIL 1984)
5.	52.212-15	Government Delay of Work (APRIL 1984)
6.	52.215-1	Examination of Records by Comptroller General (APRIL 1984)
7.	52.215-2	Audit-Negotiation (APRIL 1984)
8.	52.215-22	Price Reduction for Defective Cost or Pricing Data (as modified to provide for $100,000 threshold) (APRIL 1984)
9.	52.215-24	Subcontractor Cost or Pricing Data (as modified to provide for $100,000 threshold) APRIL 1984
10.	52.215-30	Facilities Capital Cost of Money (APRIL 1984)
11.	52.215-31	Waiver of Facilities Capital Cost of Money (APRIL 1984)
12.	52.219-8	Utilization of Small Business Concerns and Small Disadvantaged Business Concerns (APRIL 1984)
13.	52.219-9	Small Business and Small Disadvantaged Business Subcontracting Plan (APRIL 1984)
14.	52.219-13	Utilization of Women-Owned Small Businesses (APRIL 1984)
15.	52.220-3	Utilization of Labor Surplus Area Concerns (APRIL 1984)
16.	52.220-4	Labor Surplus Area Subcontracting Program (APRIL 1984)
17.	52.222-1	Notice to the Government of Labor Disputes (APRIL 1984)
18.	52.222-3	Convict Labor (APRIL 1984)
19.	52.222-26	Equal Opportunity (APRIL 1984)

20.	52.222-28	Equal Opportunity Preaward Clearance of Subcontracts (APRIL 1984)
21.	52.222-35	Affirmative Action for Special Disabled and Vietnam Era Veterans (APRIL 1984)
22.	52.222-36	Affirmative Action for Handicapped Workers (APRIL 1984)
23.	52.222-41	Service Contract Act of 1965
24.	52.223-2	Clear Air and Water (over $100,000) (APRIL 1984)
25.	52.224-1	Privacy Act Notification (APRIL 1984)
26.	52.225-3	Buy American Act - Supplies (APRIL 1984)
27.	52.228-2	Additional Bond Security (APRIL 1984)
28.	52.229-3	Federal, State, and Local Taxes (APRIL 1984)
29.	52.230-3	Cost Accounting Standards (APRIL 1984)
30.	52.232-1	Payments (APRIL 1984)
31.	52.232-8	Discounts for Prompt Payments (APRIL 1984)
32.	52.232-9	Limitation on Withholding of Payments (APRIL 1984)
33.	52.232-11	Extras (APRIL 1984)
34.	52.232-17	Interest (APRIL 1984)
35.	52.232-23	Assignment of Claims (APRIL 1984)
36.	52.233-1	Disputes (APRIL 1984)
37.	52.243-1	Changes - Fixed Price (APRIL 1984)
38.	52.244-1	Subcontracts Under Fixed Price Contracts (Over $500,000) (APRIL 1984)
39.	52.244-5	Competition in Subcontracting (APRIL 1984)
40.	52.245-2	Government Property (Fixed-Price Contracts) (APRIL 1984)
41.	52.247-34	F.O.B. Destination (APRIL 1984)
42.	52.249-2	Termination for Convenience of the Government (Fixed-Price) (APRIL 1984)
43.	52.249-8	Default (Fixed-Price Supply and Service) (APRIL 1984)

II. DEPARTMENT OF EDUCATION ACQUISITION REGULATION (EDAR) (41 CFR CHAPTER 34) CLAUSES (TEXT INCLUDED AS ATTACHMENT B)

No.	EDAR Clause No.	Title and Date
1.	3452.202-1	Definitions (April, 1984)
2.	3452.208-70	Printing (APRIL 1984)
3.	3452.227-1	Rights in Data APRIL 1984)
4.	3452.232-9	Withholding of Contract Payment (APRIL 1984)
5.	3452-242-70	Notice to the Government of Delays (April, 1984)
6.	3452.270-2	Pricing of Adjustments (APRIL 1984)
7.	3452.270-4	Publication and Publicity (APRIL 1984)
8.	3452.270-5	Paperwork Reduction Act (APRIL 1984)
9.	3452.270-6	Advertising of Awards (APRIL 1984)

SECTION J - LIST OF ATTACHMENTS

Attachment A - Statement of Work Appendices I - IX

- Appendix I - Litigation Preparation Requirements
- Appendix II - Acknowledgement of Traning Relevant to the Privacy Act of 1974
- Appendix III - ED Regional Office—State Responsibilities
- Appendix IV - Account Transfer Tape Format
- Appendix V - Transfer Report
- Appendix VI - Student Account Sheet
- Appendix VII - Name and Address Change Tape Formats
- Appendix VIII - Account Balancing Tape Format
- Appendix IX - Billing Statement

Attachment B - Text of Department of Education Acquisition Regulations Incorporated by Reference in Section I.

PART IV - REPRESENTATIONS AND INSTRUCTIONS

SECTION K - REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS OR QUOTERS

The offeror makes the following Representations and Certifications as part of its proposal (check or complete all appropriate boxes or blanks on the following pages).

(Name of Offeror)	(RFP No.)
(Signature of Authorized Individual)	(Date)

(TYPED NAME OF AUTHORIZED INDIVIDUAL)

Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

The Representations and Certifications must be executed by an individual authorized to bind the offeror.

K. 1 - CERTIFICATE OF INDEPENDENT PRICE DETERMINATION

(a) The offeror certifies that-

(1) The prices in this offer have been arrived at independently, without, for the purpose of restricting competition, any consultation, communication, or agreement with any other offeror or competitor relating to (i) those prices, (ii) the intention to submit an offer, or (iii) the methods or factors used to calculate the prices offered;

(2) The prices in this offer have not been and will not be knowingly disclosed by the offeror, directly or indirectly, to any other offeror or competitor before bid opening (in the case of a formally advertised solicitation) or contract award (in the case of a negotiated solicitation) unless otherwise required by law; and

(3) No attempt has been made or will be made by the offeror to induce any other concern to submit or not to submit an offer for the purpose of restricting competition.

(b) Each signature on the offer is considered to be a certification by the signatory that the signatory-

(1) Is the person in the offeror's organization responsible for determining the prices being offered in this bid or proposal, and that the signatory has not participated and will not participate in any action contrary to subparagraph (a)(1) through (a)(3) above; or

(2)(i) Has been authorized, in writing, to act as agent for the following principals in certifying that those principals have not participated, and will not participate in any action contrary to subpargraphs (a)(1) through (a)(3) above ____________ ____[insert full name of person(s) in the offeror's organization responsible for determining the prices offered in this bid or proposal, and the title of his or her position in the offeror's organization];
(ii) As an authorized agent, does certify that the principals named in subdivision (b)(2)(i) above have not participated, and will not participate, in any action contrary to subparagraph (a)(1) through (a)(3) above; and
(iii) As an agent, has not personally participated, and will not participate, in any action contrary to subparagraphs (a)(1) through (a)(3) above.
(c) If the offeror deletes or modifies subparagraph (a)(2) above, the offeror must furnish with its offer a signed statement setting forth in detail the circumstances of the disclosure.

K. 2 - TYPE OF BUSINESS ORGANIZATION

The offeror or quoter, by checking the applicable box, represents that it operates as ☐ a corporation incorporated under the laws of the State of ______________________________, ☐ an individual, ☐ a partnership, ☐ a non profit organization, or ☐ a joint venture.

K. 3 - SMALL BUSINESS CONCERN REPRESENTATION

The offer represents and certifies as part of its offer that it ☐ is, ☐ is not a small business concern and that ☐ all, ☐ not all supplies to be furnished will be manufactured or produced by a small business concern in the United States, its possessions, or Puerto Rico. "Small Business concern," as used in this provision, means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on Government contracts, and qualified as a small business under the size standards in this solicitation.

K. 4 - CONTINGENT FEE REPRESENTATION AND AGREEMENT

(a) Representation. The offeror represents that, except for full-time bona fide employees working solely for the offeror, the offeror-
[NOTE: The offeror must check the appropriate boxes. For interpretation of the representation, including the term "bona fide employee," see Subpart 3.4 of the Federal Acquisition Regulation.]
(1) ☐ has, ☐ has not employed or retained any person or company to solicit or obtain this contract; and

(2) ☐ has, ☐ has not paid or agreed to pay to any person or company employed or retained to solicit or obtain this contract any commission, percentage, brokerage, or other fee contingent upon or resulting from the award of this contract.

(b) Agreement. The offeror agrees to provide information relating to the above Representation as requested by the Contracting Officer and, when subparagraph (a)(1) or (a)(2) is answered affirmatively, to promptly submit to the Contracting Officer-

(1) A completed Standard Form 119, Statement of Contingent or Other Fees, (SF 119); or

(2) A signed statement indicating that the SF 119 was previously submitted to the same contracting office, including the date and applicable solicitation or contract number, and representing that the prior SF 119 applies to this offer or quotation.

K. 5 - PLACE OF PERFORMANCE

(a) The offeror or quoter, in the performance of any contract resulting from this solicitation, ☐ intends ☐ does not intend (check applicable block) to use one or more plants or facilities located at a different address from the address of the offeror or quoter as indicated in this proposal or quotation.

(b) If the offeror or quoter checks "intends" in paragraph (a) above, it shall insert in the spaces provided below the required information:

Place of Performance (Street Address, City, County, State, Zip Code)	Name and Address of Owner and Operator of the Plant or Facility if Other than Offeror or Quoter

ARTICLE K. 6 - SMALL DISADVANTAGED BUSINESS CONCERN REPRESENTATION

(a) Representation. The offeror represents that it ☐ is, ☐ is not a small disadvantaged business concern.

(b) Definitions.

"Asian-Indian American," as used in this provision, means a United States citizen whose origins are in India, Pakistan, or Bangladesh.

"Asian-Pacific American," as used in this provision, means a United States citizen whose origins are in Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territory of the Pacific Islands, the Northern Mariana Islands, Laos, Cambodia, or Taiwan.

"Native Americans," as used in this provision, means American Indians, Eskimos, Aleuts, and native Hawaiians.
"Small business concern," as used in this provision, means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on Government contracts, and qualified as a small business under the criteria and size standards in 13 CFR 121.
"Small disadvantaged business concern," as used in this provision, means a small business concern that (1) is at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged, or publicly owned business having at least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals and (2) has its management and daily business controlled by one or more such individuals.
(c) Qualified groups. The offeror shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, Asian-Indian Americans, and other individuals found to be qualified by the SBA under 13 CFR 124.1.

K. 7 - WOMEN-OWNED SMALL BUSINESS REPRESENTATION

(a) Representation. The offeror represents that it /_/ is, /_/ is not a woman-owned small business concern.
(b) Definitions.
"Small business concern," as used in this provisions, means a concern, including its affiliates, that is independently owned and operated, not dominate in the field of operation in which it is bidding on Government contracts, and qualified as a small business under the criteria and size standards in 13 CFR 121.

"Women-owned," as used in this provision, means a small business that is least 51 percent owned by a woman or women who are U.S. citizens and who also control and operate the business.

K. 8 - WALSH-HEALEY PUBLIC CONTRACTS ACT REPRESENTATION

The offeror represents as a part of this offer that the offeror is /_/ or is not /_/ a regular dealer in, or is /_/ or is not /_/ a manufacturer of, the supplies offered.

K. 9 - CERTIFICATION OF NONSEGREGATED FACILITIES

(a) "Segregated facilities," as used in this provision, means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees, that are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise.

(b) By the submission of this offer, the offeror certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. The offeror agrees that a breach of this certification is a violation of the Equal Opportunity clause in the contract.

(c) The offeror further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will--

(1) Obtain identical certifications from proposed subcontractors before the award of the subcontracts under which the subcontractor will be subject to the Equal Opportunity clause;

(2) Retain the certifications in the files; and

(3) Forward the following notice to the proposed subcontractors (except if the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities must be submitted before the award of a subcontract under which the subcontractor will be subject to the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually).

NOTE: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

K. 10 - PREVIOUS CONTRACTS AND COMPLIANCE REPORTS

The offeror represents that-

(a) It ☐ has, ☐ has not participated in a previous contract or subcontract subject either to the Equal Opportunity clause of this solicitation, the clause originally contained in Section 310 of Executive Order No. 10925, or the clause contained in Section 201 of Executive Order No. 11114;

(b) It ☐ has, ☐ has not, filed all required compliance reports; and

(c) Representations indicating submission of required compliance reports, signed by proposed subcontractors, will be obtained before subcontract awards.

K. 11 - AFFIRMATIVE ACTION COMPLIANCE

The offeror represents that (a) it ☐ has developed and has on file, ☐ has not developed and does not have on file, at each establishment, affirmative action programs required by the rules and regulations of the Secretary of Labor (41 CFR 60-1 and 60-2), or (b) it ☐ has not previously had contracts subject to the written affirmative action programs requirement of the rules and regulations of the Secretary of Labor.

K. 12 - CLEAN AIR AND WATER CERTIFICATION

The Offeror certifies that-
(a) Any facility to be used in the performance of this proposed contract is ☐, is not ☐ listed on the Environmental Protection Agency List of Violating Facilities;
(b) The Offeror will immediately notify the Contracting Officer, before award, of the receipt of any communication from the Administrator, or a designee, of the Environmental Protection Agency, indicating that any facility that the Offeror proposes to use for the performance of the contract is under consideration to be listed on the EPA List of Violating Facilities; and
(c) The Offeror will include a certification substantially the same as this certification, including this paragraph (c), in every nonexempt subcontract.

K. 13 - BUY AMERICAN CERTIFICATE

The offeror certifies that each end product, except those listed below, is a domestic end product (as defined in the clause entitled "Buy American Act-Supplies"), and that components of unknown origin are considered to have been mined, produced, or manufactured outside the United States.

Excluded End Products	Country of Origin

(List as necessary)

Offerors may obtain from the contracting officer lists of articles, materials, and supplies excepted from the Buy American Act (listed at 25.108 of the Federal Acquisition Regulation).

K. 14 - COST ACCOUNTING STANDARDS NOTICES AND CERTIFICATION (NONDEFENSE)

NOTE: This notice does not apply to small businesses or foreign governments.
(a) Any contract over $100,000 resulting from this solicitation shall be subject to Cost Accounting Standards (CAS) if it is awarded to a business unit that is currently performing a national defense CAS covered contract or subcontract, except when-
(1) The award is based on adequate price competition;
(2) The price is set by law or regulation;
(3) The price is based on established catalog or market prices of commercial items sold in substantial quantities to the general public; or
(4) One of the exemptions in 4 CFR 331.30(b) applies (also see Federal Acquisition Regulation (FAR 30.301(b)).

(b) Contracts not exempted from CAS shall be subject to full or modified coverage as follows:
(1) If the business unit receiving the award is currently performing a national defense contract or subcontract subject to full CAS coverage (4 CFR 331), this contract will have full CAS coverage and will contain the clauses from the FAR entitled Cost Accounting Standards (52.230-3) and Administration of Cost Accounting Standards (52.230-4).
(2) If the business unit receiving the award is currently performing a national defense contract or subcontract subject to modified CAS coverage (4 CFR 332), this contract will have modified coverage and will contain the clauses entitled Disclosure and Consistency of Cost Accounting Practices (52.230-5) and Administration of Cost Accounting Standards (52.230-4).

A. Certificate of CAS Applicability

The offeror hereby certifies that-
☐ The offeror is not performing any CAS covered national defense contract or subcontract. The offeror further certifies that it will immediately notify the Contracting Officer in writing if it is awarded any national defense CAS-covered contract or subcontract subsequent to the date of this certificate but before the date of the award of a contract resulting from this solicitation. (If this statement applies, no further certification is required.)
☐ The offeror is currently performing a negotiated national defense contract or subcontract that contains the Cost Accounting Standards clause at FAR 52.230-3.

☐ The offeror is currently performing a negotiated national defense contract or subcontract that contains the Disclosure and Consistency of Cost Accounting Practices clause at FAR 52.230-5.

B. Additional Certification - CAS Applicable Offerors

☐ The offeror subject to Cost Accounting Standards further certifies that practices used in estimating costs in pricing this proposal are consistent with the practices disclosed in the Disclosure Statement where it has been submitted pursuant to CAS Board regulations (4 CFR 351).

C. Data Required - CAS Covered Offerors

The offeror certifying that it is currently performing a national defense contract containing either CAS clause (see A above) is required to furnish the name, address (including agency or department component), and telephone number of the cognizant Contracting Officer administering the offeror's CAS covered contracts.

Name of Contracting Officer ______________________________
Address: ______________________________
____
Telephone Number: ______________________________

K. 15 - CERTIFICATE OF CURRENT COST OR PRICING DATA

(When a certificate of cost or pricing data is required to be submitted in accordance with Federal Acquisition Regulation (FAR) 15.804-4, the Contracting Officer will request that the Offeror complete, execute, and submit to the Contracting Officer a certification in the format shown in the following Certificate of Current Cost or Pricing Data. The certification shall be submitted only at the time negotiations are completed. Offerors should complete the certificate set forth below and return it when requested by the Contracting Officer.)

This is to certify that, to the best of my knowledge and belief, the cost or pricing data (as defined in section 15.801 of the Federal Acquisition Regulation (FAR) and required under FAR subsection 15.804-2) submitted, either actually or by specific identification in writing, to the contracting officer or to the contracting officer's representative in support of __________ * are accurate, complete, and current as of __________ **. This certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

Firm ______________________________
Name __________ __________ __________
Title ______________________________
Date of execution*** ______________________________

*Identify the proposal, quotation, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g. RFP No.).

**Insert the day, month, and year when price negotiations were concluded and price agreement was reached.

***Insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.

K. 16 - DUPLICATION OF COST

The offeror represents and certifies that any charges contemplated and included in its estimate of cost for performance are not duplicative of any charges against any other Government contract, subcontract, or other Government source.

K. 17 - EMPLOYER'S IDENTIFICATION NUMBER

The offeror's Internal Revenue Service "Employer's Identification Number" is ______________________________.

K. 18 - COUNTRY OF MANUFACTURER REPRESENTATION

The product which the offeror proposes to furnish ____ is, _____ is not manufactured, mined, or grown in the United States. If the product is not manufactured, mined, or grown in the United States, the country of Manufacturer is ______________________________.

K. 19 - AUTHORIZED NEGOTIATORS

The offeror or quoter represents that the following persons are authorized to negotiate on its behalf with the Government in connection with this request for proposals or quotations: [list names, titles, and telephone numbers of authorized negotiators].

____

____

____

PART IV

SECTION L - INSTRUCTIONS, CONDITIONS, AND NOTICES TO OFFERORS OR QUOTERS

ARTICLE L. 1 - TYPE OF CONTRACT

The Government contemplates award of a *Fixed Price* type contract resulting from this solicitation.

ARTICLE L. 2 - GENERAL INSTRUCTIONS

The following instructions establish the acceptable minimum requirements for the format and content of proposals:

Your special attention is directed to the requirements for technical and business proposals to be submitted in accordance with these instructions.

Any resultant contract shall include the general provisions applicable to the selected offeror's organization and type of contract awarded. Copies of general provisions may be obtained by contacting the Contracting Officer. Any additional clauses required by public law, executive order, or acquisition regulations, in effect at the time of execution of the proposed contract, will be included.

The proposal must be prepared in two parts: A "Technical Proposal" and a "Business Proposal." Each of the parts shall be separate and complete in itself so that evaluation of one may be accomplished independently of evaluation of the other. The technical proposal must not contain reference to cost; however, resource information, such as data concerning labor hours and categories, materials, subcontracts, etc., must be contained in the technical proposal so that your understanding of the scope of the work may be evaluated. It must disclose your technical approach in sufficient detail to provide a clear and concise presentation that includes, but is not limited to, the requirements of the technical proposal instructions.

The proposal must be signed by an official authorized to bind your organization. Seven (7) copies of your technical proposal and seven (7) copies of your business proposal must be submitted to:

U. S. Department of Education
AMPS/Operations Support Branch
Room 5671, GSA Building
7th & D Streets, S.W., Washington, D.C. 20202/3562

You may, at your discretion, submit alternate proposals, or proposals which deviate from the requirements; provided, that you also submit a proposal for performance of the work, as specified in the statement of work. These proposals may be considered if overall performance would be improved or not compromised and if they are in the best interest of the Government. Alternate proposals, or deviations from any requirements of this RFP, must be clearly identified.

The Government will evaluate proposals in accordance with the evaluation criteria set forth in Section M of this request for proposals.

It is understood that your proposal will become part of the official contract file.

The RFP does not commit the Government to pay any cost for the preparation and submission of a proposal. In addition, the Contracting Officer is the only individual who can legally commit the Government to the expenditure of public funds in connection with this proposed acquisition.

ARTICLE L.3. INSTRUCTIONS FOR PREPARATION OF TECHNICAL PROPOSAL

Offeror's technical proposal shall contain the following sections, to be identified as indicated:

Section A -- General Approach
Section B -- Technical Approach
Section C -- Management/Staffing/Scheduling
Section D -- Project Personnel Experience
Section E -- Corporate Experience

Each section must indicate the principal author and the author's relationship with the offeror.

The following information is provided as guide in the preparation of responses to this solicitation.

Section A -- General Approach

The offeror shall provide adequate assurance that it can meet the possible site location requirements of the Work Statement, and the protection of Federal Government monies and property. More specifically, the offeror must specifically state how it proposes to meet the requirements of Section 1.1 (PURPOSE) with respect to the "Hold Harmless" requirements including evidence of bonding or civil liability insurance coverage.

This section of the technical proposal shall also contain the offeror's general description of its plans for meeting the objectives of this solicitation, the offeror's plans for accomplishing the training of its personnel, the offeror's proposed quality control plan, and a flow chart indicating the activity that the offeror is proposing must be included with this general description.

Section B -- Technical Approach

The offeror shall explain comprehensively its plans for performing each of the tasks identified in the Scope of Work portion of this solicitation. This section shall include, but not limited to discussion of the following:

-- the offeror's plans for handling and processing the receipt of any accounts received under this solicitation.

-- the offeror's detailed plans, as outlined in the flow chart provided in Section 1.0, for the collection of accounts transferred under this solicitation. Specific information related to time-frames, control and contingency plans shall be included. Also to be included are copies of all standard documents the offeror proposes to use in support of the requirements of this RFP. Such documents include: proposed collection letters, proposed financial statement, and proposed employment and health status forms.

-- the offeror's detailed plans, including time-frames, for the handling of accounts requiring administrative resolution actions. This section should include plans for the disposition of accounts determined by the offeror to have met the requirements established by ED for administrative resolution.

-- the offeror's detailed plans for the handling and preparation of accounts for litigation by the Federal Government. This section should include a discussion on the determination by the offeror that litigation is next viable step in the collection process, and its plans for meeting the requirements established by the Federal Government.

-- the offeror's plans for the receipt and processing of repayments received. Specifically, this discussion should include the offeror's plans for meeting the requirements of Section 3.1.2.3 of the Statement of Work.

-- the offeror's plans for handling the return of accounts received under this solicitation, including assurances that the time-frames specified will be met.

-- the offeror's capability of meeting the system requirements of this solicitation. Specifically, the type, capacity and operation (including estimated down-time) of systems that the offeror proposes to utilize under this RFP.

Section C -- Management/Staffing/Scheduling

This section should include a detailed management plan that the offeror plans to implement during the course of this contract. The management plan should show the feasibility of implementing the offeror's technical approach through the effective and efficient use of resources. A matrix should be provided that specifies the amount of time each staff member will be committed to their responsibility under this contract.

Section D -- Project Personnel Experience

The offeror is expected to identify the specific staff member and/or subcontractor personnel it will utilize in performing the tasks of this contract. Key personnel, with major responsibilities under this contract, should be listed by name, title, position, academic background, relevant experience, responsibilities within the project, percentage of time committed to this project, and the extent to which this commitment is assured. Where key personnel are unknown at the time of proposal submission, the offeror will be expected to include a complete position description that states the duties that will be performed by the individual(s).

Section E -- Corporate Experience

The offeror should include a list of clients for which similar work has been completed. Brief summaries of the type of work completed by the offeror should be included, along with name, current affiliation (if any), telephone number and title of the each listed client.

Each offeror is required to outline all current contractual obligations in which any of the key personnel identified under Section D are currently assigned, and the time currently devoted to those projects.

ARTICLE L. 4 - BUSINESS PROPOSAL INSTRUCTIONS

The business proposal shall include the following:

A. Standard Form 33, "Solicitation, Offer and Award", the Special Provision article entitled "Contract Administrator", and those offered Representations, Certifications, and Other Statements of Offerors or Quoters of Section L herein. These pages must be properly filled out and signed by an official authorized to bind the Offeror.

B. A detailed pricing proposal - The pricing proposal must be fully supported by cost and pricing data adequate to establish the reasonableness of the proposed amount and to otherwise meet, if necessary, the requirements for certified cost or pricing data under 48 CFR Subpart 15.804. The attached Standard Form 1411 shall be used in preparation of the proposal. (Note: The attached Optional Cost/Pricing Form may be used in supplement to the Standard Form 1411 if the offeror so wishes.) All elements contributing to price, including categories and amounts of labor, materials, indirect costs or overheads, travel, computer time, etc., shall be treated thereunder in accordance with the the instructions contained in Table 15-3 of 48 CFR Subpart 15.804-6 and supportive data for those also attached as required. That shall also be signed by an authorized official. Finally, your proposal must stipulate that it is predicated upon all the terms and conditions of this RFP. In addition, it must contain a statement to the effect that it is firm for a period of at least 60 days from the date of receipt of offers specified by the Government.

In specific addition:

(1) The cost for individual elements, such as analytical studies, reports, etc., shall be itemized.

(2) The estimated cost of each phase or segment of the offered performance shall be itemized.

(3) Inasmuch as it may be necessary to authorize performance of the project by phases or a group of phases, the extent that these are severable should be indicated together with the effect, if any, of such severance upon the estimated cost.

(4) It is ED policy that contractors provide all equipment and facilities necessary for performance of contracts; however, in some instances, an exception may be granted to furnish Government-owned property or to authorize purchase with contract funds. If additional equipment must be acquired, you must include in your proposal the description and estimated cost of each item, and whether you propose to furnish the item with your own funds.

You must identify all Government-owned property in your possession and all property acquired from Federal funds, to which you have title, that is proposed to be used in the performance of the prospective contract.

The management and control of Government property must be in accordance with the Department of Health and Human Services (HHS) Publication (OS) 74-115 entitled, "Control of Property in Possession of Contractors," a copy of which will be provided upon request.

C. Other Administrative Data - The proposal shall list the names and telephone numbers of persons authorized to conduct negotiations.

D. Responsibility of Prospective Contractor - In order for an offeror to receive a contract, the contracting officer must first make an affirmative determination that the prospective contractor is responsible in accordance with the provisions of 43 CFR Subpart 9-1.04. To assist the contracting officer in this regard, the offeror shall supply sufficient categorical descriptions and statements to establish the following:

(1) The offeror's financial capability; including detail for the accounting system and controls employed by the offeror;

(2) The offeror's capability to meet delivery or performance schedules;

(3) The offeror's record of past performance, including a listing of references with contract and grant numbers and the addresses and phone numbers of those with whom the offeror has most recently conducted business.

(4) The offeror's record of business integrity;

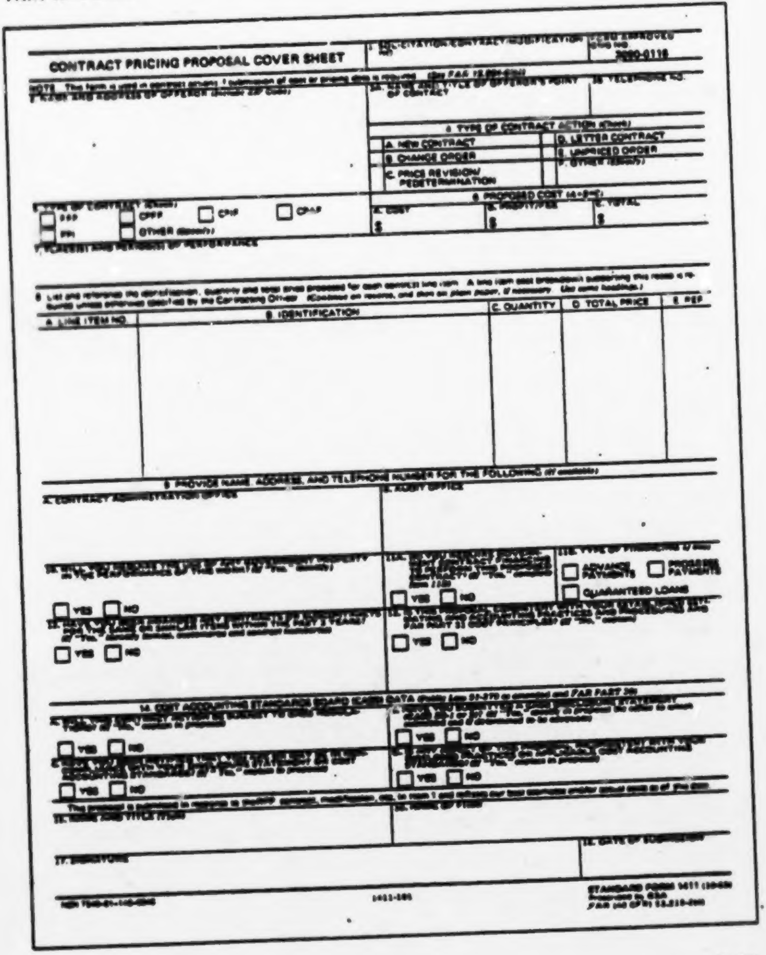
(5) The offeror's possession of necessary organization, experience, and technical skills, or the ability to obtain them;

(6) The offeror's possesion of necessary facilities; or the ability to obtain them, and

(7) In the separately bond cost proposal, the Offeror should repeat the staffing plan from the technical proposal, in comparable format, and show the dollar cost - by task - for each person for each assignment. Cost estimates should contain breakdowns of direct charges for personnel, materials, supplies, consultants (if any), and all other major budget items.

The following forms, which will be used to evaluate cost proposals received under solicitation, need to be completed with your business proposal. The assumptions made and estimates given on these forms are only Department of Education estimates (not expectations). The Government does not guarantee that any of these transfers, outside of the initial transfer, will occur or that the dollar value of the transfers will be similar to those used on the following forms. These assumptions will be used for evaluation purposes only.

Please complete these forms by proposing your bid rates and computing the necessary totals.



CONTRACT PRICING PROPOSAL COVER SHEET

3090-0116

4. TYPE OF CONTRACT ACTION (Check)

☐	A. NEW CONTRACT	☐	D. LETTER CONTRACT
☐	B. CHANGE ORDER	☐	E. UNPRICED ORDER
☐	C. PRICE REVISION/ REDETERMINATION	☐	F. OTHER (Specify)

☐ FFP ☐ CPFF ☐ CPIF ☐ CPAF

☐ FPI ☐ OTHER (Specify)

6. PROPOSED COST (A+B=C)

A. COST	B. PROFIT/FEE	C. TOTAL
$	$	$

A. LINE ITEM NO.	B. IDENTIFICATION	C. QUANTITY	D. TOTAL PRICE	E. REF

9. PROVIDE NAME, ADDRESS, AND TELEPHONE NUMBER FOR THE FOLLOWING (If available)

A. CONTRACT ADMINISTRATION OFFICE	B. AUDIT OFFICE

☐ YES ☐ NO

☐ YES ☐ NO

☐ ADVANCE PAYMENTS ☐ PROGRESS PAYMENTS

☐ GUARANTEED LOANS

☐ YES ☐ NO

☐ YES ☐ NO

14. COST ACCOUNTING STANDARDS BOARD (CASB) DATA

☐ YES ☐ NO

☐ YES ☐ NO

☐ YES ☐ NO

☐ YES ☐ NO

CONTRACT PRICING PROPOSAL *(RESEARCH AND DEVELOPMENT)*				Office of Management and Budget Approval No. 29-RO184	
This form is for use when (i) submission of cost or pricing data (see FPR 1-3.807-3) is required and (ii) substitution for the Optional Form 59 is authorized by the contracting officer				PAGE NO.	NO. OF PAGES
NAME OF OFFEROR		SUPPLIES AND/OR SERVICES TO BE FURNISHED			
HOME OFFICE ADDRESS					
DIVISION(S) AND LOCATION(S) WHERE WORK IS TO BE PERFORMED		TOTAL AMOUNT OF PROPOSAL $		GOV'T SOLICITATION NO.	
DETAIL DESCRIPTION OF COST ELEMENTS					
1. DIRECT MATERIAL *(Itemize on Exhibit A)*			EST COST ($)	TOTAL EST COST*	REFERENCE*
a. PURCHASED PARTS					
b. SUBCONTRACTED ITEMS					
c. OTHER—*(1)* RAW MATERIAL					
(2) YOUR STANDARD COMMERCIAL ITEMS					
(3) INTERDIVISIONAL TRANSFERS *(At other than cost)*					
TOTAL DIRECT MATERIAL					
2. MATERIAL OVERHEAD* *(Rate %X$ base=)*					
3. DIRECT LABOR *(Specify)*	ESTIMATED HOURS	RATE/ HOUR	EST COST ($)		
TOTAL DIRECT LABOR					
4. LABOR OVERHEAD *(Specify Department or Cost Center)**	O.H. RATE	X BASE =	EST COST ($)		
TOTAL LABOR OVERHEAD					
5. SPECIAL TESTING *(Including field work at Government installations)*			EST COST ($)		
TOTAL SPECIAL TESTING					
6. SPECIAL EQUIPMENT *(If direct charge) (Itemize on Exhibit A)*					
7. TRAVEL *(If direct charge) (Give details on attached Schedule)*			EST COST ($)		
a. TRANSPORTATION					
b. PER DIEM OR SUBSISTENCE					
TOTAL TRAVEL					
8. CONSULTANTS *(Identify—purpose—rate)*			EST COST ($)		
TOTAL CONSULTANTS					
9. OTHER DIRECT COSTS *(Itemize on Exhibit A)*					
10. TOTAL DIRECT COST AND OVERHEAD					
11. GENERAL AND ADMINISTRATIVE EXPENSE *(Rate % of cost element Nos.)*					
12. ROYALTIES*					
13. TOTAL ESTIMATED COST					
14. FEE OR PROFIT					
15. TOTAL ESTIMATED COST AND FEE OR PROFIT					

Optional Cost/Pricing Form

This proposal is submitted for use in connection with and in response to (Describe RFP, etc.)

and reflects our best estimates as of this date, in accordance with the Instructions to Offerors and the Footnotes which follow.

TYPED NAME AND TITLE	SIGNATURE
NAME OF FIRM	DATE OF SUBMISSION

EXHIBIT A—SUPPORTING SCHEDULE *(Specify. If more space is needed, use reverse)*

COST EL NO.	ITEM DESCRIPTION *(See footnote 5)*	EST COST ($)

I. HAS ANY EXECUTIVE AGENCY OF THE UNITED STATES GOVERNMENT PERFORMED ANY REVIEW OF YOUR ACCOUNTS OR RECORDS IN CONNECTION WITH ANY OTHER GOVERNMENT PRIME CONTRACT OR SUBCONTRACT WITHIN THE PAST TWELVE MONTHS?

☐ YES ☐ NO *(If yes, identify below.)*

NAME AND ADDRESS OF REVIEWING OFFICE AND INDIVIDUAL	TELEPHONE NUMBER/EXTENSION

II. WILL YOU REQUIRE THE USE OF ANY GOVERNMENT PROPERTY IN THE PERFORMANCE OF THIS PROPOSED CONTRACT?

☐ YES ☐ NO *(If yes, identify on reverse or separate page)*

III. DO YOU REQUIRE GOVERNMENT CONTRACT FINANCING TO PERFORM THIS PROPOSED CONTRACT?

☐ YES ☐ NO *(If yes, identify.):* ☐ ADVANCE PAYMENTS ☐ PROGRESS PAYMENTS OR ☐ GUARANTEED LOANS

IV. DO YOU NOW HOLD ANY CONTRACT *(Or, do you have any independently financed (IR&D) projects)* FOR THE SAME OR SIMILAR WORK CALLED FOR BY THIS PROPOSED CONTRACT?

☐ YES ☐ NO *(If yes, identify.):*

V. DOES THIS COST SUMMARY CONFORM WITH THE COST PRINCIPLES SET FORTH IN AGENCY REGULATIONS?

☐ YES ☐ NO *(If no, explain on reverse or separate page)*

See Reverse for Instructions and Footnotes

Optional Cost/Pricing Form 2

INSTRUCTIONS TO OFFERORS

1. [illegible]

2. [illegible]

a. [illegible]
b. [illegible]
c. [illegible]

[illegible]

3. [illegible]

4. [illegible]

5. [illegible]

FOOTNOTES

1. [illegible]

2. [illegible]

3. [illegible]

4. [illegible]

5. [illegible]

[illegible]

Optional Cost/Pricing Form

Optional Cost/Pricing Form

TABLE 1

CONTRACT COSTS -- YEAR ONE

For purposes of evaluating all business proposals in a fair and equitable manner, the Department of Education will assume that five (5) transfers occur during the first year on days 90, 150, 210, 270, and 330 of the contract and that each transfer contains 5,000 accounts valued at $7 million. Each contractor would, therefore, have received a total of 25,000 accounts valued at $35 million. The AVERAGE DAILY BALANCE of accounts would be $14.58 million. The following figures on dollars collected and number of accounts resolved are estimates and will be used only to rank business proposals received under this solicitation.

PRICING FACTORS	ESTIMATED COLLECTIONS/RESOLUTIONS	x	PROPOSED FEE		ESTIMATED COST TO GOVERNMENT
Commission/Contingency Fee	$1.5 million	x	_____%	=	$__________
Fixed Litigation Preparation Fee	750 Accounts	x	$_____/Acct	=	$__________
Fixed Resolution Fee	750 Accounts	x	$_____/Acct	=	$__________
	TOTAL ESTIMATED COST -- YEAR ONE			=	$__________

NOTE: Transfer the TOTAL ESTIMATED COST -- YEAR ONE to Line 1, Table 5.

TABLE 2

CONTRACT COSTS -- YEAR TWO

For purposes of evaluating all business proposals in a fair and equitable manner, the Department of Education will assume that an additional six (6) transfers of 5,000 accounts valued at $7 million per transfer will occur during the second contract year. Each contractor would, therefore, receive a total of 30,000 accounts valued at $42 million in this second year in addition to the 25,000 accounts transferred during year one. The AVERAGE DAILY BALANCE of accounts would be $71 million. The following figures on dollars collected and number of accounts resolved are estimates and will be used only to rank business proposals received under this solicitation.

PRICING FACTORS	ESTIMATED COLLECTIONS/RESOLUTIONS	x	PROPOSED FEE		ESTIMATED COST TO GOVERNMENT
Commission/Contingency Fee	$7.0 million	x	_____%	=	$__________
Fixed Litigation Preparation Fee	1,500 Accounts	x	$_____/Acct	=	$__________
Fixed Resolution Fee	1,250 Accounts	x	$_____/Acct	=	$__________
	TOTAL ESTIMATED COST -- YEAR TWO			=	$__________

NOTE: Transfer the TOTAL ESTIMATED COST -- YEAR TWO to Line 2, Table 5.

TABLE 3

CONTRACT COSTS — YEAR THREE

For purposes of evaluating all business proposals in a fair and equitable manner, the Department of Education will assume that an additional six (6) transfers of 5,000 accounts valued at $7 million per transfer will occur during the third contract year. Each contractor would, therefore, receive a total of 30,000 accounts valued at $42 million in this third year in addition to the accounts previously transferred during the first two years. Under this assumption, ED will assume that all accounts transferred during the first year have been completed and returned to ED. Therefore, the AVERAGE DAILY BALANCE of accounts would be $67 million. The following figures on dollars collected and number of accounts resolved are estimates and will be used only to rank business proposals received under this solicitation.

PRICING FACTORS	ESTIMATED COLLECTIONS/RESOLUTIONS	x	PROPOSED FEE		ESTIMATED COST TO GOVERNMENT
Commission/Contingency Fee	$7.0 million	x	______%	=	$__________
Fixed Litigation Preparation Fee	2,000 Accounts	x	$_____/Acct	=	$__________
Fixed Resolution Fee	1,250 Accounts	x	$_____/Acct	=	$__________
	TOTAL ESTIMATED COST — YEAR THREE			=	$__________

NOTE: Transfer the TOTAL ESTIMATED COST -- YEAR THREE to Line 3, Table 5.

TABLE 4

CONTRACT COSTS -- YEAR FOUR

For purposes of evaluating all business proposals in a fair and equitable manner, the Department of Education assumes that no additional transfers of accounts will occur during the fourth year of the contract. Under this assumption, ED willalso assume that all accounts transferred during the first and second years have been completed and returned to ED. Therefore, the AVERAGE DAILY BALANCE of accounts would be $42 million. The following figures on dollars collected and number of accounts resolved are estimates and will be used only to rank business proposals received under this solicitation.

PRICING FACTORS	ESTIMATED COLLECTIONS/RESOLUTIONS	x	PROPOSED FEE		ESTIMATED COST TO GOVERNMENT
Commission/Contingency Fee	$4.5 million	x	______%	=	$__________
Fixed Litigation Preparation Fee	1,000 Accounts	x	$_____/Acct	=	$__________
Fixed Resolution Fee	500 Accounts	x	$_____/Acct	=	$__________
	TOTAL ESTIMATED COST -- YEAR FOUR			=	$__________

NOTE: Transfer the TOTAL ESTIMATED COST -- YEAR FOUR to Line 4, Table 5.

TABLE 5

TOTAL CONTRACT COSTS

For purposes of evaluating all business proposals in a fair and equitable manner, the Department of Educationhas prepared the previous four tables, which make various assumptions on transfers, collections and resolutions for each of the four years this contract could run. Table Five is only a cumulation of the Total Estimated Costs from Tables One through Four.

The Government does not guarantee any of the assumptions made in the Business Proposal Section of this solicitation. Any estimates or assumptions made by the Government are being used solely for evaluation purposes only.

Line 1 TOTAL ESTIMATED COST -- YEAR ONE $______________

Line 2 TOTAL ESTIMATED COST -- YEAR TWO $______________

Line 3 TOTAL ESTIMATED COST -- YEAR THREE $______________

Line 4 TOTAL ESTIMATED COST -- YEAR FOUR $______________

TOTAL ESTIMATED CONTRACT COSTS $______________

ARTICLE L. 5 - FORMS CLEARANCE PROCESS

Reference is made to the General Provision entitled "Paperwork Reduction Act." If the contractor has proposed the use of any plan, questionnaire, interview guide or other similar device which calls either for answers to identical questions from ten or more persons other than Federal employees or information from Federal employees which is outside the scope of their employment, any of which is to be used by the Federal government or disclosed to third parties, clearances from the Deputy Under Secretary for Management or his/her delegate within the Department of Education and the Office of Management and Budget shall first be obtained. Those should be expected to take at least 120 days together. Offerors' proposals shall accordingly reflect that 120 day period in proposal timelines if the Paperwork Reduction Act is applicable.

Those clearances shall not be required whenever a majority of these respondents are educational agencies or institutions (including when the information is collected from employees or students in these agencies or institutions in ways that require the assistance of the agency or institution) and whenever the purpose of the activity is to request data needed for: (1) management of Federal Education Programs (including the use of applications); or (2) formulation of policy related to Federal programs; or (3) research or evaluation studies related to the implementation of Federal Education programs. In the above instances, FEDAC (Federal Education Data Acquisition Council) clearance must be obtained, including public announcement in the Federal Register by the February 15, immediately preceding the school year in which the data is to be collected. Proposal timelines should allow thirty days for public comment and an additional 30 days for subsequent FEDAC review.

ARTICLE L. 6 - PRIVACY ACT NOTIFICATION

This acquisition action may require the contractor to do one or more of the following: design or operate a system of records on individuals to accomplish an agency function in accordance with the Privacy Act of 1974, Public Law 93-579, December 31, 1974 (5 U.S.C. 552a) and the applicable agency regulations. Violations of the Act may involve the imposition of criminal penalties.

L.7. 52.252-2 SOLICITATION PROVISIONS INCORPORATED BY REFERENCE (APR 1984)

This Solicitation incorporates the following solicitation provisions by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

I. Federal Acquisition Regulation (48 CFR CHAPTER 1) Solicitation Provisions

52.215-5	SOLICITATION DEFINITIONS (APR 1984)
52.215-7	UNNECESSARILY ELABORATE PROPOSALS OR QUOTATIONS (APR 1984)
52.215.8	ACKNOWLEDGEMENT OF AMENDMENT TO SOLICITATIONS (APR 1984)
52.215-9	SUBMISSION OF OFFERS (APR 1984)
52.215-10	LATE SUBMISSIONS, MODIFICATIONS, AND WITHDRAWALS OF PROPOSALS (APR 1984)
52.215-12	RESTRICTION ON DISCLOSURE AND USE OF DATA (APR 1984)
52.215-13	PREPARATION OF OFFERS (APR 1984)
52.215-14	EXPLANATION TO PROSPECTIVE OFFERORS (APR 1984)
52.215-15	FAILURE TO SUBMIT OFFER (APR 1984)
52.215-16	CONTRACT AWARD (APR 1984)
52.215-18	ORDER OF PRECEDENCE (APR 1984)
52.222-24	PRE-AWARD ON-SITE EQUAL OPPORTUNITY COMPLIANCE REVIEW (APR 1984)
52.237-1	SITE VISIT (APR 1984)
52.217-05	EVALUATION OF OPTIONS

SECTION M - EVALUATION FACTORS FOR AWARD

ARTICLE M.1 - Technical Evaluation

Technical proposals submitted under this RFP will be evaluated as follows:

	Points
A. General Approach	10
Offeror's understanding of and plans for monitoring the objectives of this contract and the tasks in the scope of work.	
B. Technical Approach	75
Offeror's plans for achieving the objectives of the contract with respect to:	
-- the Receipt of Accounts (5 points);	
-- the Collection of Accounts (15 points);	
-- the Resolution of Accounts (15 points);	
-- the Preparation of Accounts for Litigation (15 points);	
-- the Processing and Crediting of Repayments (10 points);	
-- the Return of Accounts to ED (5 points);	
-- Computer Capabilities (10 points).	
C. Management/Staffing/Scheduling	5
Offeror's detailed management plan to be implemented under the contract.	
D. Project Personnel Experience	5
Experience of offeror's personnel to be assigned to key positions within this contract.	
E. Corporate Experience	5
Offeror's previous and current experience in areas related to this contract.	
TOTAL	100

Article M.2. - Cost Evaluation

The Business Proposals will be evaluated in accordance with the instructions and Price Tables included in Section L.4. All prices proposed must be accompanied be supporting cost and pricing data.

Any proposals which are materially unbalanced as to prices for basic and option quantities and types of services will be rejected as non responsive. An unbalanced proposal is one which is based on prices significantly less than cost for some work and prices which are significantly overstated for other work.

Proposals will be evaluated for purposes of award by adding the total prices for all items for the basic year to the total prices for all items of the option years. Evaluation of options will not obligate the Government to exercise the option or options. The volumes used for evaluation are estimates only.

Although price will be a factor in the evaluation of proposals, technical excellence of proposals will be a more significant factor in the selection of a contractor. However, to be selected for award, a proposal must be fairly and reasonably priced.

Article M.3. - Contract Award

More than one contract award may result from this solicitation. The Government contemplates awarding up to six (6) contracts. Contract awards are contemplated to be made to those firms whose proposals are most advantageous to the Government price and other factors considered. To achieve that end, the Government reserves the right to award a contract to other than the low offeror or to not make an award, if either of those choices serves its best interests.

RFP 85-130
Attachment A

Appendix I

LITIGATION PREPARATION REQUIREMENTS

The contractor will prepare and include each of the following completed items for each litigation case required under this contract:

1. Certificate of Indebtedness;
2. U.S. Department of Justice Claims Collection Litigation Report;
3. Samples (of letters) and dates mailed for first and last contractor demand for payment;
4. Any relevant responses received from the debtor;
5. Current employment information - verified within last 30 days;
6. Current home address information - verified within last 30 days;
7. Current financial statement, credit report or other evidence of the debtor's ability to pay and any judgment obtained;
8. Any other available supporting documentation.

The Department of Education will review each submitted litigation case for compliance with these requirements within 30 days. If the requirements are not met, the case will be rejected back to the contractor for completion of the requirements package.

Contractor will receive flat fee for each case reviewed and accepted by the Department of Education for litigation activity.

>L< >T< >R<

CLAIMS COLLECTION LITIGATION REPORT
(on letterhead of referring agency)

>[Date] †

>United States Attorney
>[Judicial District] of [State]
>[City, State, Zip Code]

*6. The address opposite is the "inside address" but the envelope or "outside address" will have to be more complete. The judicial district may be written, "Southern District of Iowa," or "District of Kansas," as appropriate. The State can be the accepted two capital letter abbreviation.

>[Debtor's full name (LAST, First, Middle)]
>[Debtor's mailing address]
>
>

>[Debtor's file or reference number]
>$[Amount] is the total principal due.
>$[Amount] is the total interest due.
>$[Amount] is the total amount due.
>[Rate] % is the annual interest rate.

Attention Claims Collection Unit

Dear United States Attorney:

This claim is referred to you for suit and such other action as you deem appropriate to enforce collection. The prior action taken by this agency and the information provided you complies fully with Federal Claims Collection Standards (4 CFR Parts 101-105). The documentation required by 4 CFR Parts 101-105 is attached and the information you have requested follows.

THE DEBTOR

1. Date of Birth: ________________

2. Social Security Number: ________________

3. Also known as: [List aliases of debtor, if known.]

4. Name used on note/application: ________________

5. Present residence: [Show actual place of residence, not merely the debtor's mailing address.] ________________

6. Residence verified by/when: [From what source and when?]

7. Present phone number: ________________

8. Phone number verified by/when: [From what source and when?]

9. Debtor locator (skiptracing) information: [Show information which will assist the (9, cont'd) U.S. Attorney's office in relocating the debtor if he or she moves from the residence given at Item 5, above.] ________________

THE CLAIM

10. Basis of claim or cause of action: [Briefly describe the claim, e.g., (10, cont'd.) benefit overpayment, loan default, bankruptcy, etc.] ________________

† The symbols, the brackets, the boxes, or the text within either of the latter will not appear on the final typed or printed report, but have been included here to explain or clarify the questions/items. The margin and tab settings are indicated on the first line. Once set, they need not be changed to complete the entire report. This report is designed to be typed onto a printed form or prepared on word processing equipment with either "tab-to-block" or "merge/text/print" features, i.e., merge variable text with pattern ("set") text and print.

11. Statute of limitations (SOL) runs on:
[Date?]

12. Basis for SOL date:
[E.g., default date, last payment date
(12, cont'd).]

13. First demand for payment made on:
[Date?]

14. First demand made by:
[Who, i.e., agent, official, office?]

15. First demand made by:
[E.g., letter, phone, personal contact?]

16. Last demand for payment made on:
[Date?]

17. Last demand made by:
[Who, i.e. agent, official, office?]

18. Last demand made by:
[E.g., letter, phone, personal contact?]

19. Debtor's response:
[When and how did debtor respond?]

20. Does debtor dispute claim:
[Explain debtor's position with regard
(20, cont'd) to the claim, if known.]

21. Response, if any, to debtor's dispute:
[Agency response to debtor's dispute.]

22. Exhaustion of administrative remedies:
[Describe administrative remedies
(22, cont'd) available to debtor, how debtor was advised of them, and debtor's action with regard thereto, if any.]

23. Compromise offered or solicited:
$[Amount?]

24. Basis for compromise:
[Was a compromise offer solicited from
(24, cont'd) the debtor or offered the debtor by the claimant agency? Was a basis for compromise offer given; if yes, what was the basis?]

25. Response:
[If any, by who and what response?]

26. Others legally responsible for debt:
[E.g., beneficiaries, conservators.]

27. Basis of liability by other parties:
[Is liability joint or several? Action,
(28, cont'd) if any, taken against other parties? If none, why not? If yes, what action and what amount recovered? Give other relevant details.]

ACCOUNT INFORMATION

28. Certification of Indebtedness .
$[Amount?] as of [Date of determination.]

29. Original principal owed by debtor:
$[Amount?]

30. Number and amount of payments made:
[Number of payments and total paid.]

31. Amount applied to principal:
$

32. Amount applied to interest:
$

33. Balance due on principal:
$

34. Balance due on accrued interest:
$

35. Explain interest rate if not U.S. Rule:
[Note: The U.S. Rule is that payments
(35, cont'd) are applied to accrued interest first and then to principal; however, some programs are funded which expressly provide for the reverse of the U.S. Rule.]

36. Debtor's last payment:
$[Amount and date?]

37. Interest accrual date:
[The date from which interest is due.]

>L< >T< >R<

DEBTOR'S EMPLOYMENT

38. Present employment:
[Employer's name?]
[Employer's address; street and number,
City, State and ZIP Code?]
[Employer's phone number?]

39. Employment verified:
[From what source and when?]

40. Debtor's salary:
$[Amount and whether weekly or monthly
(40, cont'd) and whether gross or net?]

41. Salary verified:
[From what source and when?]

42. Spouse's employment:
[Employer's name?]
[Employer's address; street and number,
City, State, ZIP Code?]
[Employer's phone number?]

43. Spouse's employment verified:
[From what source and when?]

DEBTOR'S ABILITY TO PAY

44. Having due regard for the exemptions to which the debtor is entitled, the cost of collection, the debtor's age and health, present and potential income, inheritance prospects, and the possibility that assets have been concealed or improperly transferred; the current credit report or financial statement attached (or other information found in the attached file) discloses the present or likely future availability of assets or income from which a substantial sum may be obtained by enforced collection proceedings:
[Explain.]

45. The following information will assist you in locating property in which the United States has a secured interest: [Describe and attach security agreements
(45, cont'd) and describe and give last known location of property in which the United States has a secured interest. Give asset or fair market value of security (which?).]

46. The following information will assist you in locating other assets of the debtor:
[Describe and give the location of real and personal property of the debtor which is or
(46, cont'd) may be vulnerable to attachment or levy (non-exempt assets). Give asset or fair market value of property listed (which?).]

VALUE OF CLAIM

47. If discounted or sold in commerce, the fair market or asset value of this claim would be:
$[Amount? Explain basis for fair market or asset valuation given, if any.]
(47, cont'd)

48. With due regard to the debtor's ability to pay, as defined by question 44, above, a reasonable and acceptable compromise offer by the debtor would be:
$[Amount? What is basis for amount shown? Explain in relationship to the debtor's assets
(48, cont'd) and income which can be reached by garnishment, levy, or attachment?]

TRANSFER OR DIRECT DEPOSIT OF FUNDS

49. Accounting officer:
[Name, title, agency, mailing address.]
[FTS phone number.]

50. Treasury accounting/disbursing office/code/symbol/number:
[Treasury account to which any recovery from the debtor will be credited.]

>L< >T< >R<

If I can be of any further assistance in this matter, please do not hesitate to call me at the number given below.

Sincerely,

>[Name]
>[Title]
>[Mailing address if not shown above]
>
>
>[FTS Phone number]

Attachments as listed:

Appendix II

ACKNOWLEDGE OF TRAINING
REVELANT TO THE PRIVACY ACT OF 1974

I acknowledge that I have received training relevant to the Privacy Act of 1974 (5 U.S.C. 522a) and its application to collection activity. I understand that the conditions of authorized disclosure are as described in subsection 3(b) of the Privacy Act. I have read the pertinent parts of the Act and the OMB Privacy Act Guidelines, including subsections 3(a), Definitions; 3(b), Conditions of Disclosure; and 3(i), Criminal Penalties. I have also read the pertinent parts of the Department's Privacy Act Regulation, including Sections 5b.1, Definitions; 5b.9, Disclosure of Records; and Appendix A, Employee Standards of Conduct. If in doubt on a specific disclosure question, I will consult with a supervisor (or, when appropriate, an ED on-site monitor). If others ask me to make an unauthorized disclosure, I will decline and report the incident to my supervisor or project manager.

____________________ (Date)

____________________ (Signature of Employee)

____________________ (Date)

____________________ (Signature of Supervisor)

Appendix III

ED Regional Office -- State Responsibilities

Atlanta Region

- Alabama
- Connecticut
- Delaware
- Florida
- Georgia
- Kentucky
- Maine
- Maryland
- Massachusetts
- Mississippi
- New Hampshire
- New Jersey
- New York
- North Carolina
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee
- Vermont
- Virginia
- West Virginia
- District of Columbia
- Panama Canal Zone
- Puerto Rico
- Virgin Islands

Chicago Region

- Arkansas
- Illinois
- Indiana
- Louisiana
- Michigan
- Minnesota
- New Mexico
- Ohio
- Oklahoma
- Texas
- Wisconsin

San Francisco Region

- Alaska
- Arizona
- California
- Colorado
- Hawaii
- Idaho
- Iowa
- Kansas
- Missouri
- Montana
- Nebraska
- Nevada
- North Dakota
- Oregon
- South Dakota
- Utah
- Washington
- Wyoming
- American Samoa
- Guam
- Trust Territories of the Pacific
- Wake Island

Appendix IV

Account Transfer Tape Format

Definition	Source
9(9)	SOCIAL SECURITY NUMBER
X	Space
99	ED Regional Office
999	New account collector number
X(20)	LAST NAME
X(15)	FIRST NAME
X(20)	PREVIOUS NAME (if any)
999	Original ED collector number
9(5)V99	Total balance
9(5)V99	Total interest
X(9)	Date of Last Payment (MMMDDYYY Format)
99	Age of Account
X(40)	STREET ADDRESS
X(40)	CITY
XX	STATE
9(5)	ZIP CODE
X	Address Status Field
X	Contact Status Field
99	Address Source Field
X(4)	Collection Site

```
                      ACCOUNTS TRANSFERRED TO COLLECTION AGENCY
                           REGION:                                 PAGE:  9999
                           AGENCY:                                 DATE:  MMM DD YYYY

                           LOCATION CODE:  999

                                   CURRENT        CURRENT        TOTAL          AGE OF
NAME                   SSN         PRINCIPAL      INTEREST       BALANCE        ACCOUNT
```

Appendix V

```
                                   STUDENT ACCOUNT SHEET
   COLLECTOR # 374                                                      REGION: 05           PAGE:    1

   SSN :                 STUDENT NAME :
     ADDRESS :                                                   ALT ADDR :


       LENDER :PACIFIC FED SAVINGS & LOAN ASSN                          SCHOOL :WEBSTER COLLEGE
               767 NORTH E STR,  STUDENT LOAN DEPT                              470 EAST LOCKWOOD
               SAN BERNADINO ,CA 92403                                          WEBSTER GROVES ,MO 63119

ORIGINAL BALANCE     :  7000.00      ORIGINAL INTEREST     :     0.00

STUDENT OVER PAYMENT :     0.00      ADJUSTED OVERPAYMENT:       0.00                CURRENT BALANCE     :    6910.00
COMPROMISE           :     0.00      WRITE OFF AMOUNT      :     0.00                CURRENT  INTEREST   :    4131.04
NET SUPPLEMENTS      :     0.00      NET WRITE OFF         :     0.00                TOTAL DUE           :   11041.04
SUM OF RECEIPTS      :    90.00      REFUND AMOUNT         :     0.00
LAST COLL DATE       : 09-JUN-77     BILLING CYCLE         :        0
ACCOUNT BALANCE DATE : 20-FEB-84     REGPAY AMOUNT         :     0.00

                    ######################## PAYMENT HISTORY ######################

 DOR       RECPT                          INS                   COL
           SCHED       PAYMENT            TYPE   CHECK NUMBER   TYPE   LSRC   REG    POSTING DATE
 --------  ---------   ------------       -------  ---------------  ------  ------  ------  --------------

 11-APR-77  55-5558       30.00            MO     74790          RG     RS     05       12-APR-77
 11-MAY-77  55-5580       30.00            PC     432            RG     RS     05       12-MAY-77
 09-JUN-77  55-6501       30.00            PC     481            RG     RS     05       15-JUN-77

                    ################### NO   FRS DATA FOUND #######################
```

Appendix VII

Name and Address Changes Tape Formats

NAME CHANGE FORMAT:

Picture	Description
X	Space
9(9)	SOCIAL SECURITY NUMBER
X(20)	Original LAST NAME
X(20)	New LAST NAME
X(15)	FIRST NAME
X(37)	Filler

ADDRESS CHANGE FORMAT:

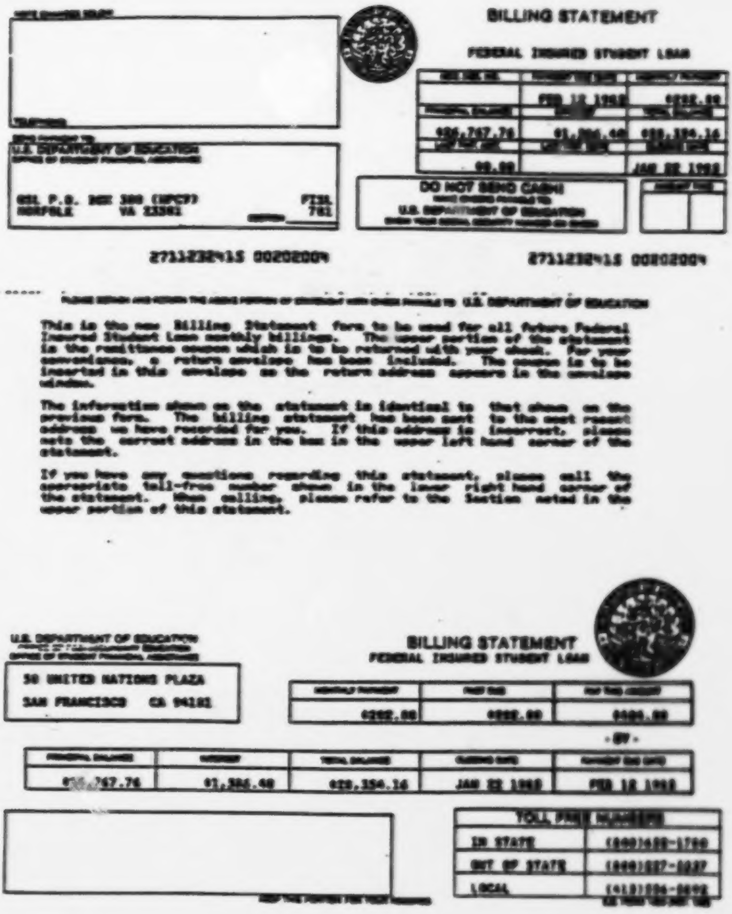
Picture	Description
X	Space
9(9)	SOCIAL SECURITY NUMBER
X(5)	First five (5) characters of LAST NAME
X(40)	New STREET ADDRESS
X(40)	New CITY
XX	New STATE
9(5)	new ZIP CODE

Appendix VIII

Account Balancing Tape Format

Picture	Description
FILE 1:	Record Size = 9 Characters
X(9)	Date of Balancing Tape (DD-MMM-YY)
FILE 2:	Record Size = 83 Characters
99	ED Regional Office
X(4)	Collection site
999	Collector number
X(20)	LAST NAME
X(15)	FIRST NAME
XX	Filler
9(9)	SOCIAL SECURITY NUMBER
9(5)V99	Current Balance
9(5)V99	Current Interest
XX	Status of Claim
X(12)	Filler

Appendix IX



BILLING STATEMENT

FEDERAL INSURED STUDENT LOAN

[illegible]	[illegible]	[illegible]
	FEB 12 1988	$282.00
[illegible]	[illegible]	[illegible]
$26,767.76	$1,586.40	$28,354.16
[illegible]	[illegible]	[illegible]
$0.00		JAN 22 1988

U.S. DEPARTMENT OF EDUCATION

651, P.O. BOX 300 (UPCP) FTIL
NORFOLK VA 23501 761

DO NOT SEND CASH!

U.S. DEPARTMENT OF EDUCATION

2711232415 00202004 2711232415 00202004

U.S. DEPARTMENT OF EDUCATION

This is the new Billing Statement form to be used for all future Federal Insured Student Loan monthly billings. The upper portion of the statement is the remittance coupon which is to be returned with your check. For your convenience, a return envelope has been included. The coupon is to be inserted in this envelope so the return address appears in the envelope window.

The information shown on the statement is identical to that shown on the previous form. The billing statement has been sent to the most recent address we have recorded for you. If this address is incorrect, please note the correct address in the box in the upper left hand corner of the statement.

If you have any questions regarding this statement, please call the appropriate toll-free number shown in the lower right hand corner of the statement. When calling, please refer to the Section noted in the upper portion of this statement.

U.S. DEPARTMENT OF EDUCATION

50 UNITED NATIONS PLAZA
SAN FRANCISCO CA 94102

BILLING STATEMENT

FEDERAL INSURED STUDENT LOAN

MONTHLY PAYMENT	PAST DUE	PAY THIS AMOUNT
$282.00	$598.00	$880.00

PRINCIPAL BALANCE	INTEREST	TOTAL BALANCE	CLOSING DATE	PAYMENT DUE DATE
$26,767.76	$1,586.40	$28,354.16	JAN 22 1988	FEB 12 1988

TOLL FREE NUMBERS	
IN STATE	(800)433-1790
OUT OF STATE	(800)227-0237
LOCAL	(415)556-0892

815

II. DEPARTMENT OF EDUCATION ACQUISITION REGULATION (EDAR) (48 CFR CHAPTER 34) CLAUSES

1. [illegible]

[illegible]

3452.202-1

2. [illegible]

[illegible]

3452.220-70

3. [illegible]

[illegible]

[illegible]

3452.227-1

4. [illegible]

[illegible]

3452.22[illegible]

5. [illegible]

[illegible]

3452.242-70

6. [illegible]

[illegible]

[illegible]

3452.249-14

7. [illegible]

[illegible]

[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

3452.270-2

8. [illegible]

[illegible]

[illegible]

[illegible]

3452.270-4

9. [illegible]

[illegible]

[illegible]

3452.270-3

10. [illegible]

[illegible]

3452.270-6

Cut along broken line

FILL IN INFORMATION AND AFFIX TO OFFER PACKAGE

RFP OR IFB NO.

CLOSING DATE

FROM *(Name of Offeror)*

ADDRESS *(Number and street)*

CITY, STATE AND ZIP CODE

IF NO OFFER →

☐ CANNOT COMPLY WITH WORK STATEMENT

☐ WE DESIRE TO BE RETAINED ON OFFER LIST

☐ WE DO NOT DESIRE TO BE RETAINED ON OFFER LIST

FOLD ON THIS LINE, SEAL, AFFIX POSTAGE AND MAIL

ED FORM 5222, 7/80
GPO 932 632

PREVIOUS EDITION
IS OBSOLETE.

MAIL ROOM
DO NOT
OPEN

AFFIX
POSTAGE

U.S. DEPARTMENT OF EDUCATION
APPLICATION CONTROL CENTER
7TH AND D STREETS, S.W.
GSA REGION 3 BLDG., ROOM 5673
WASHINGTON, D.C. 20202

AMERICAN MEDICAL ASSOCIATION
535 NORTH DEARBORN STREET • CHICAGO, ILLINOIS 60610 • PHONE (312) 645-5000 • TWX 910-221-0300

August 5, 1985

JAMES H. SAMMONS, M.D.
Executive Vice President
(645-4300)

The Honorable William D. Ford
Chairman
Subcommittee on Post-Secondary Education
Committee on Education and Labor
U.S. House of Representatives
Washington, D.C. 20515

RE: Hearings on the
Reauthorization of the Higher
Education Act

Dear Chairman Ford:

The American Medical Association submits the enclosed statement for inclusion in the record of the recent hearings concerning the reauthorization of the Higher Education Act.

We appreciate the opportunity to express our views and we urge adoption by your Subcommittee of legislation embracing the goals set out in our statement.

Sincerely,

James H. Sammons, M.D.

JHS:ts

1643e

PREPARED STATEMENT OF THE AMERICAN MEDICAL ASSOCIATION

The American Medical Association takes this opportunity to submit its comments for the record of the recent hearings concerning the reauthorization of the Higher Education Act. The focus of our statement is on the importance of continued availability of federal financial assistance for students seeking careers in medicine to ensure that qualified individuals are not deprived of an opportunity to pursue a medical career because of insufficient financial resources.

Administration Budget Proposals Concerning Student Aid

The Administration's fiscal year 1986 budget proposes significant reductions in federal support for loan, loan guarantee and scholarship programs for medical students. The Administration is proposing to restrict eligibility for loans under the Guaranteed Student Loan (GSL) program to students from families whose adjusted gross income does not exceed $32,500. It also proposes to restrict the total amount a student can receive for loans and grants under Title IV of the Higher Education Act to $4,000 per year. The current ceiling is $11,000. In addition, the Administration is proposing to limit the aggregate amount of new loans guaranteed under the Health Education Assistance Loan (HEAL) program to $100 million in fiscal year 1986. By comparison, in fiscal year 1984 the government guaranteed $250 million of HEAL loans. Finally, the Administration is proposing no funds for the Health Professions Student Loan (HPSL) program and for the Exceptional Financial Need Scholarship Program.

AMA View Concerning Concerning Student Assistance

General Comments

The AMA believes strongly that the U.S. medical education system is second to none and is an essential component in assuring high quality health care for the American people. Federal support for medical education has been an important factor in developing this strong system.

The cost of a medical education today is very high. The expenses that an individual incurs can be overwhelming to all but the wealthy. While medical school tuitions vary, tuition can cost as much as $75,000 over a four-year period. That amount does not include ancillary costs and living expenses and costs incurred in obtaining an undergraduate degree. Moreover, it is likely that the cost of a medical education will continue to rise in coming years as medical schools' expenses increase.

The AMA believes strongly that access to a medical education must be available to qualified persons from all socioeconomic backgrounds. Society as a whole benefits from a diversity of economic as well as cultural and ethnic backgrounds in the medical profession. While some would argue that there should be no federal assistance for medical students in light of their high potential income at the completion of training, we are concerned that low and middle income students would never be able to finance their training thereby leaving medicine as a career opportunity only for the wealthy.

Guaranteed Student Loan Program

The AMA is concerned that the reductions in guaranteed student loans proposed by the Administration would have the effect of placing medical education beyond the financial wherewithal of students from low and middle income families. Currently, GSL loans are the primary source of financial aid for medical students. During the 1982-83 academic year, more than half of medical students relied on GSL funds and these funds provided over 40% of all financial aid to medical students. If Congress enacts the Administration's proposal to restrict GSL funds, along with its proposals to reduce the aggregate amount of new HEAL loans and provide no funds for the HPSL and exceptional financial need grant programs, the opportunity to pursue a medical education will be put out of the reach of many students from low income and middle class families.

The AMA supports an appropriate increase in the current annual GSL loan limit to reflect increases in medical school tuition charges in recent years. This would ensure that the GSL program continues to be a primary source of financial aid for medical students. We also recommend that in order for the increased annual limit to be meaningful, the aggregate limit should also be raised. Otherwise it is likely that many medical students will use all of their GSL eligibility before they are able to finish medical school.

Other Federal Health Education Assistance Programs

The AMA opposes the Administration's proposed cuts in the HPSL, HEAL and exceptional financial need grant programs. These programs provide valuable financial aid for many medical students. We support reauthorization of and adequate funding for these programs.

Repayment Obligations of Borrowers

The AMA also believes strongly that medical students who borrow money to finance their education have both a moral and a legal obligation to fully pay their debts. While the number of medical students who default on their obligations is relatively small, the AMA will increase its efforts to encourage all students to repay their obligations.

We also believe strongly that the federal government and other lenders should take aggressive action in collecting past due obligations. Through such collections, coupled with funds paid back in the normal course of the loan programs, funds become available to assist other deserving individuals.

The AMA recently urged the Department of Health and Human Services to pursue all legal avenues to withhold Medicare and Medicaid payments, research grant awards, and salaries or stipends from physicians who have defaulted on repayments of student loans unless the physician can prove financial hardship.

Conclusion

The AMA strongly supports the availability of adequate financial assistance in the form of loans and scholarships to students in order to ensure that access to a medical education is not limited to the wealthy. We vigorously oppose the Administration's proposed cuts in financial aid and believe that further study of the impact of any significant cuts in funding should be undertaken prior to any such Congressional action.

1643a

VERMONT
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802/655-9602

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June 26, 1985

The Honorable William D. Ford, Chairman
Subcommittee on Postsecondary Education
239 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Ford:

During your opening statement at the Washington, D.C. Title IV Reauthorization Hearings, you indicated that the Record would be open for additional testimony on the student aid programs. In response to that generous offer, I am pleased to provide written testimony covering issues related to student debt burdens and repayment.

Thank you for this opportunity to provide information related to the Vermont experience in this important area. I'll be most happy to answer any questions you may have.

Sincerely,

Britta Anderson

Britta Anderson
Director, Federal Affairs,
Research and Planning

Enclosure

BA/bp

cc: Congressman Augustus F. Hawkins
Congressman E. Thomas Coleman
Congressman James M. Jeffords

PREPARED STATEMENT OF BRITTA J. ANDERSON, VERMONT STUDENT ASSISTANCE CORPORATION

Mr. Chairman and Members of the Subcommittee, I am Britta Anderson, Director of Federal Affairs, Research and Planning at Vermont Student Assistance Corporation. I am very pleased to have the opportunity to testify on repayment issues and the issue of debt burden as they relate to the Guaranteed Student Loan Program.

These issues have become increasingly important over the past few years as concerns about student loan debt burdens continue to rise and examples of extremely high debts become more frequent.

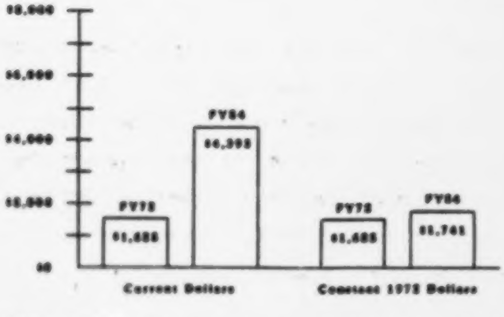
Are those concerns valid or exaggerated? Have the debt burdens indeed risen dramatically and is repayment such an onerous chore for the average borrower? In order to provide at least a partial answer to these very basic questions, a study was conducted of the debt burdens of Vermont Guaranteed Student Loan Borrowers who entered repayment in the years 1972 and 1984.

Figure 1 illustrates the change in the average total GSL for all Vermonters during those years.

Figure 1

AVERAGE TOTAL GUARANTEED STUDENT LOAN DEBT AT GRADUATION

(All Vermont Students)



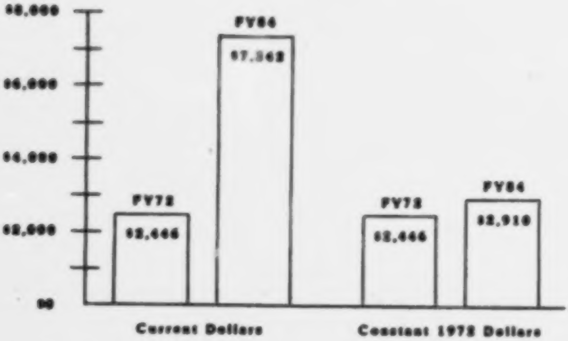
SOURCE: VSAC Loan Files - Constant dollar projections based on CPI.

Although the average debt burden for all Vermont borrowers has escalated rapidly in terms of current dollars, the change in terms of constant dollars is very small (roughly $100). The results for separate subgroups, i.e. Bachelor Degree students and Associate Degree students mirror those above. The one exception is graduate students whose average cumulative debt as measured in constant dollars increased by $464 (19%)(Figure 2).

Figure 2

AVERAGE TOTAL GUARANTEED STUDENT LOAN DEBT AT GRADUATION

(All Vermont Graduate Students)



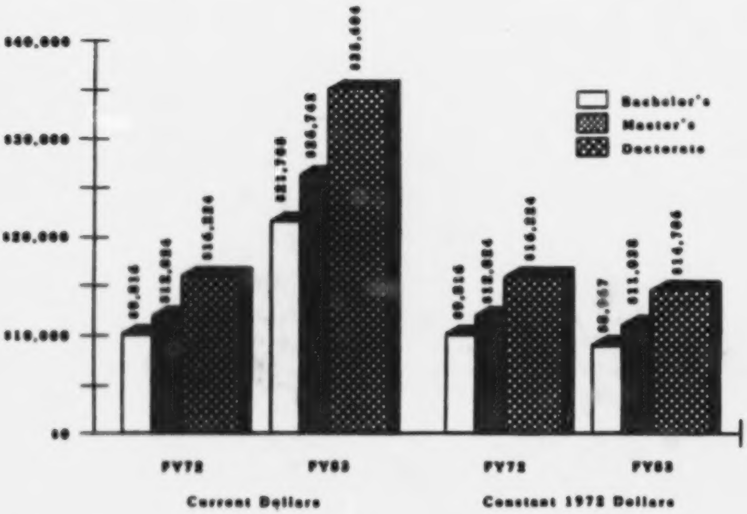
SOURCE: VSAC Loan Files

Does this mean that the concern about excessive indebtedness becomes moot? Absolutely not. A number of factors other than total debt burden are crucial to the ability to repay student loan debt, the most important being students' starting salaries. From 1972 to 1983 the average beginning salary offers nationwide to students with Bachelor's, Master's and Doctorate Degree have not kept pace with inflation (Figure 3). Thus borrowers are meeting identical or slightly higher monthly payments with fewer pre-tax dollars.

Figure 3

CHANGE IN BEGINNING SALARY OFFERS

FY72 - FY83



SOURCE: College Placement Council, Inc., "A Study of Beginning Offers" in National Center for Education Statistics. Digest of Education Statistics, 1973-1984.

Of additional concern are potential increases in debt burdens if educational costs at both public and private institutions continue to outstrip inflation as they have during the past several years and the proportion of total Title IV aid from work and grant sources continue to stagnate. Table 1 and Figure 4 illustrate the trends toward escalating educational costs and stagnating grant aid in the federal Title IV programs.

TABLE I

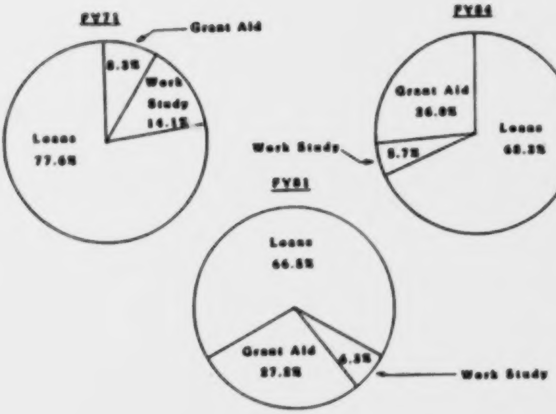
ANNUAL COLLEGE COSTS

	PRIVATE (ALL SCHOOLS)	PUBLIC (ALL SCHOOLS)
1977	$ 4.152	$1.900
1978	4.477	2.009
1979	4.908	2.163
1980	5.466	2.372
1981	6.190	2.653
1982	6.778	2.885
1983	7.422	3.094
1984	8.127	3.342
1985	8.899	3.609
1986	9.745	3.898
1987	10.671	4.210
1988	11.684	4.547

SOURCE: EDUCATIONAL TESTING SERVICE. "DISCRETIONARY INCOME AND COLLEGE COSTS."

Figure 4

SHARES of AID PROVIDED THROUGH TITLE IV AID PROGRAMS (Grants, Loans and Work Study)



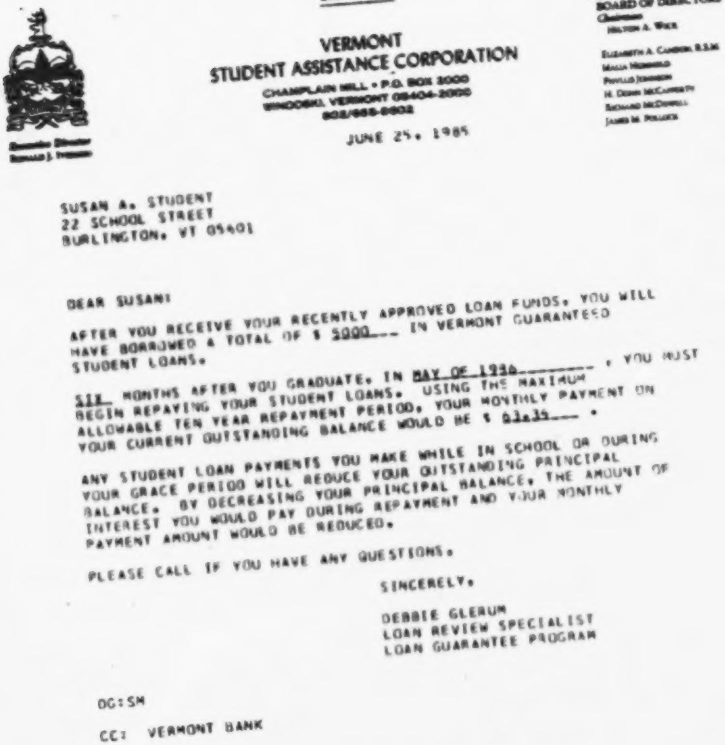
SOURCE: The College Board, "Trends in Student Aid: 1963 to 1983."

It should be pointed out that as long as the overall debt is manageable and does not impose an undue financial burden on the students, the reliance on loans need not be negative. However, if starting salaries continue to increase at a level below inflation and college costs continue to outpace the CPI, then there will clearly be a need to ameliorate the problems posed by high debt burdens through some means of loan consolidation and extended repayment options.

In conjunction with such efforts, it will be necessary to pay increased attention to the area of debt counseling. The Vermont Student Assistance Corporation has focused on this problem with an initial emphasis on debt awareness. When a student reaches a level of aggregate indebtedness of $5,000, a letter is automatically generated informing that student about his or her total indebtedness and the anticipated monthly payments based on that indebtedness (Exhibit A). Each subsequent loan by that student generates similar information. Heightening the awareness of future obligations thus serves to help the student make informed decisions about borrowing.

In conclusion it should be emphasized that, except for graduate students, the overall debt burden of Vermont borrowers has remained relatively constant over the past 12 years. However, lower average starting salaries and increased educational charges necessitate a renewed effort to implement repayment alternatives and debt counseling for the heavily burdened student loan borrowers. In addition, greater emphasis on grants in conjunction with increased loan limits (A $2,500 GSL is worth only $991 in '72 dollars) to meet the projected higher educational costs will serve to provide a better balance in the federal student aid programs while maintaining access to postsecondary education for needy students.

EXHIBIT A



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James M. Pollock

Executive Director

JUNE 25, 1985

SUSAN A. STUDENT
22 SCHOOL STREET
BURLINGTON, VT 05401

DEAR SUSAN:

AFTER YOU RECEIVE YOUR RECENTLY APPROVED LOAN FUNDS, YOU WILL HAVE BORROWED A TOTAL OF $ 5000 IN VERMONT GUARANTEED STUDENT LOANS.

SIX MONTHS AFTER YOU GRADUATE, IN MAY OF 1986, YOU MUST BEGIN REPAYING YOUR STUDENT LOANS. USING THE MAXIMUM ALLOWABLE TEN YEAR REPAYMENT PERIOD, YOUR MONTHLY PAYMENT ON YOUR CURRENT OUTSTANDING BALANCE WOULD BE $ 63.35 .

ANY STUDENT LOAN PAYMENTS YOU MAKE WHILE IN SCHOOL OR DURING YOUR GRACE PERIOD WILL REDUCE YOUR OUTSTANDING PRINCIPAL BALANCE. BY DECREASING YOUR PRINCIPAL BALANCE, THE AMOUNT OF INTEREST YOU WOULD PAY DURING REPAYMENT AND YOUR MONTHLY PAYMENT AMOUNT WOULD BE REDUCED.

PLEASE CALL IF YOU HAVE ANY QUESTIONS.

SINCERELY,

DEBBIE GLERUM
LOAN REVIEW SPECIALIST
LOAN GUARANTEE PROGRAM

DG:SM

CC: VERMONT BANK

[Whereupon, at 12:20 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

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